



H&M
WELCOME TO OUR
SUSTAINABILITY REPORT
2008

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OUR BUSINESS

H&M's business concept is to offer our customers fashion and quality at the best price. At H&M, quality is more than making sure that products meet or exceed our customers' expectations – it also means that these products should be manufactured under good working conditions and with limited impact on the environment.

Taking responsibility for how our operations affect people and the environment is key for H&M's continued profitability and growth. We are committed to integrating social and environmental concerns into all our business operations and investing in the communities where we work.

Our 2008 sustainability report covers our activities in relation to our business operations, our supply chain, our products and how they are produced, our employees and the communities around us.

This section provides an overview of our business and its impact, and how we go about integrating Corporate Social Responsibility (CSR) into it.

GLOBAL BRAND GLOBAL IMPACT AND REACH

H&M was established in Sweden in 1947 and today sells clothes, accessories, footwear and cosmetics in more than 1,700 stores in 33 countries and via internet and catalogue sales in Scandinavia, the Netherlands, Germany and Austria.

Here, we will also sell home textiles through online and catalogue sales from 2009. H&M also stands behind the brand COS and acquired the majority of shares of FaBric Scandinavien AB with its brands Cheap Monday, Weekday and Monki.

Given our global presence, we have a responsibility to societies around the world and the communities where we operate. This means integrating social and environmental concerns into all our business operations to reduce negative impacts and maximise positive ones.

We do not own or operate any factories producing our goods, but instead work with approximately 800 suppliers and around 2,700 production units in total, mainly in Asia and Europe. The number of suppliers reflects those which received orders from H&M in 2008 as well as those which could potentially have received orders and therefore have been part of our regular audit programme.

OUR BUSINESS CONTINUED

BUSINESS HIGHLIGHTS OF 2008

- Opened 214 stores. Also acquired 20 stores of the brands Weekday and Monki.
- Opened our first stores in Japan. The opening exceeded our high sales expectations making it the most successful store opening ever at H&M.
- Other new markets: Egypt, Saudi Arabia, Bahrain and Oman (all through franchise).
- Announced we are entering Russia in spring 2009, Lebanon during 2009 and Israel and South Korea in 2010.
- Acquired the majority of the shares of FaBric Scandinavien AB – the company behind the brands Cheap Monday, Weekday and Monki.
- Sales excluding VAT amounted to SEK 88,532 million, an increase of 13%.
- High-profile design collection, in collaboration with Comme des Garçons, was very well appreciated by our customers.
- Profit in 2008 rose 11% to SEK 21,190 million.
- Collaboration with stars like Rihanna, Timbaland and fashion designer Katharine Hamnett and the organisations Designers Against AIDS and YouthAIDS for our first 'Fashion Against AIDS' collection, raising awareness about HIV/AIDS, generated SEK 15 million (approximately \$1.8 million) in donations for global HIV prevention projects.
- New sustainable materials tested in addition to our organic cotton range, which was extended in 2008 to include: organic wool, recycled wool and recycled polyester.

FROM COTTON TO CUSTOMER

Our vision is for H&M to be run in an economically, socially and environmentally sustainable way. To do this we look at the complete cycle of our operations, from how our suppliers produce our garments, shoes, accessories, cosmetics and home textiles to the customer's experience of using them.

We focus on areas where we can make the most difference and that are within our sphere of influence. These are our own operations and transport as well as the suppliers with whom we have a direct business relationship.

However, we also see a need to influence stages further down our production chain, such as raw material production or fabric manufacture. We are currently looking at how we can increase our limited influence here. One way is through partnership with others and another is by capacity building, for example through our Cleaner Production Programme.

Find out more about how we work with Our Supply Chain.



RAW MATERIALS Although we do not purchase the raw materials used in our products such as cotton or wool, we are concerned about their environmental and social impacts. We actively collaborate with other organisations such as the Better Cotton Initiative (BCI), Organic Exchange and UNICEF to help address these issues. We are working towards a long-term goal to increase the use of organic cotton and we provide support for transitional cotton. We also took our first steps in using other more sustainable materials such as organic as well as recycled wool or recycled polyester. All these steps reduce the environmental impact of raw material production. Also, the use of certified organic cotton allows us to track and trace cotton back to the field where it was grown. Read more about our use of organic cotton on page 31.

MATERIAL PROCESSING In most cases we do not have direct business relationships with fabric and material manufacturers but we do support some fabric manufacturers in making their business become more sustainable through our Cleaner Production Programme. In some cases H&M has contacts to fabric or yarn suppliers through our production offices. In 2008 we conducted an assessment with around 20 dyeing mills in China. We plan to start a pilot project here focusing on chemical handling and wastewater treatment, since we identified these to be the most urgent issues. Read more about Cleaner Fabric Production on page 30.

OUR BUSINESS CONTINUED



PRODUCT MANUFACTURE In 2008 there were around 800 suppliers on our list who received or could potentially have received orders from H&M. In total this stands for around 2,700 production units. As a buyer, we are in a position to influence working conditions and environmental management at our suppliers' operations. Read more about how we work with Our Suppliers from page 14.

TRANSPORT Transport of H&M's goods is a significant contributor to the carbon footprint of our operations. We are committed to reduce this impact and work actively with our transport suppliers, organisations and also other brands to reduce the impact on the environment, which at the same time can help us to reduce our costs. Read more about Transporting Goods on page 32.

SALES H&M runs around 1,700 stores in 33 countries and employs around 73,000 people. We work actively on reducing our environmental impact, such as our carbon footprint caused by the energy used in our stores, offices and distribution centres. We also recognise that being a good and attractive employer for all our colleagues and potential new employees is important for our future growth. Other issues to consider include marketing and security measures. Read more about our work in this area from page 33.

USE Our responsibility to our customers includes ensuring that products are safe and of a good quality. We restrict substances which are considered to be harmful and carried out around 360,000 quality tests in 2008, starting at the earliest possible stage in the production chain. We support our customers in reducing the impact of our products on the environment, for example when washing garments. Read more about Our Products from page 37.

INTERVIEW WITH OUR CEO AND CSR MANAGER

2008 has been another successful and exciting year for H&M with new markets, new stores and many other highlights. Corporate Social Responsibility (CSR) took another step within the organisation, as a new sustainability strategy was developed during 2008.

Here, H&M's CEO, Rolf Eriksen, and CSR Manager, Ingrid Schullström, talk about some of H&M's priorities, challenges, opportunities and highlights of 2008. Please continue to read through the rest of the report to learn more about our achievements this year.

How has H&M's approach to Corporate Social Responsibility changed over the past year?

ROLF: We started our CSR efforts more than ten years ago and we are very proud of what we have accomplished so far. In 2008, we decided to look back at our achievements and consider how we can develop our CSR work in the coming decade. We wanted to take a more holistic approach, and make sure that sustainability becomes a natural part of the DNA in the entire organisation. The result is an ambitious strategy, which we hope will place us at the forefront of sustainability within our sector.

INGRID: Yes, it has been very inspiring for me and my team that we put so much focus on CSR during the year when discussing our future business strategies. The new strategy we have developed within the management team is more a sustainability strategy than just a CSR strategy. The biggest change is that we now make sustainability a shared responsibility in the entire organisation, not just driven by the CSR department. The CSR department will instead become a support function, helping all departments to think about sustainability. Sustainability issues influencing more than one function will be discussed in a new decision-making forum called the Green Room.

From what and how has CSR at H&M evolved?

INGRID: We have focused a lot on our supply chain, and our Code of Conduct for suppliers has really been at the heart of our CSR efforts for many years. Of course environment is also important, and especially the climate change debate has put a lot of focus on the environment lately.

ROLF: Improving the working conditions in the supply chain is still and will always be very important of course, and making sure our ban on child labour is respected will always remain a focus for our audit teams in the production markets.

INGRID: Of course, and now we have also started to look further back in the production chain, for example in areas such as fabric dyeing and cotton farming, to see how we can contribute to improvements there, although we do not have direct influence through our supply chain.

OUR BUSINESS

CONTINUED

Where do you see H&M having the most positive impact?

INGRID: It is always easier to make positive changes where we have direct control or at least a direct business relationship. The further down the production chain we get, the more difficult it is to have a real influence and improve the situation and we need to think about alternative ways to manage that.

ROLF: This is the reason why we have always been looking for cooperation with other organisations or other companies. In certain areas we believe that we can accomplish more through partnerships, for example with UNICEF.

Where does H&M see its priorities?

ROLF: We listen a lot to our stakeholders, for example our employees, our customers and our shareholders. It is important that we focus on areas that they are concerned about. But it is of course also important that we focus on those areas where we have the greatest impact and also the possibility to make a difference. One area that we have been focusing on during the year is climate change, where we have gone a good way to meet and exceed our current target. As we believe that water is a very important issue for the environment, I have this year signed the CEO Water Mandate to show our commitment.

INGRID: More concretely this would mean, for example, focusing on working conditions and the ban on child labour in the supply chain, and on climate change and water on the environmental side. Avoiding hazardous chemicals and offering our customers safe products has also been a priority for many years.

What do you see as the benefits of having a sustainability mindset?

ROLF: During the last year's discussions it has become increasingly clear that thinking in terms of sustainability makes good business sense. It goes hand in hand with the Company values and encourages resource efficiency, which suits a cost-conscious company well. Our vision is that the Company shall be economically, socially and environmentally sustainable. If we can accomplish that, we should be able to grow while maintaining our profitability for many years to come.

At the moment, how integrated are H&M's corporate responsibility activities across the business?

INGRID: Many functions, for example production and logistics, have already incorporated a lot of sustainability thinking in their strategies, but there are other departments where the potential for improvement is still great. That is why I am so excited about our new sustainability strategy that will be rolled out during 2009. Each department will have to identify its potential for improvements and we at the CSR department will support them to set goals, develop KPIs etcetera.

ROLF: It is also important that our people feel involved and that they feel that H&M's values are really lived throughout the Company. CSR and sustainability can't just be the responsibility of a central function at Head Office. It has to be part of the daily work for everyone.

The shift to CSR support – what is the positive impact this will have on the business?

ROLF: I hope it will help us to make decisions that are well thought through from all sides, economically, socially and environmentally. We make plans and investments for many years ahead so it is important that we think about what the world will look like in five or ten years from now. What constraints could there be then, what new regulations, how far ahead of our competitors can we be by acting sustainably and what will our customers expect from H&M? The more forward-thinking we are, the better decisions we make. I think the shift to a delegated responsibility for sustainability will help us in that.

INGRID: And for me being responsible for CSR within H&M's management, and my team, it will of course help us to shift to a higher gear in our day-to-day work, with all departments being more actively involved.

OUR BUSINESS CONTINUED

How does being an international business affect H&M's approach to CSR?

INGRID: That is an interesting question – usually everyone asks us how being a Scandinavian company affects our approach. Well, of course, the expectations on a large multinational retailer with activities on four continents and with stores in more than 30 countries are very high. With our size we have great impact, and our approach has to reflect that. We have a team of more than 80 people from 13 different nationalities working with CSR today. This global team has the knowledge and experience needed for us to meet the challenges of being a socially and environmentally responsible company. Cooperation is also important and we need to work with global and local NGOs and trade unions to address issues where we do not have enough knowledge within the Company.

What are the key challenges and opportunities the business faces in CSR terms?

ROLF: Let me focus on the opportunities! We can see that CSR has become really important for our employees; they are proud to work for a responsible company. We are expanding quickly and we need to attract the best talents for the future. CSR has become more and more important when young professionals are choosing an employer. Much of what we do for the environment also helps us to save resources. For example, focusing on energy savings in our stores reduces CO₂ emissions while reducing costs. Another opportunity is investing in new and more sustainable materials as this helps us secure the availability of the right materials for the future. Our customers have welcomed the collections we have offered in organic cotton. And finally, it is of course important to maintain our customers' confidence in us.

INGRID: Well, I guess Rolf left the challenges for me. It is quite hard to be brief as there are really quite a few challenges. At the moment I think reaching back in our production chain is one of the major challenges we face. What is the right method to measure CO₂ emissions from the supply chain? How can we assess our water footprint? How should we track and trace the origin of raw materials to be able to address issues connected with, for example, cotton farming? We are starting to see some of the answers – our engagement in the Better Cotton Initiative is one – but these are challenges that will keep us busy many years ahead.

What are your ambitions for the future?

ROLF: We want to be at the forefront compared to our competitors when it comes to sustainability. We want our customers to know that shopping at H&M means shopping from a company that is more sustainable than most competitors in the market. It is a bold ambition, but we think it is important and necessary for our continued success.

INGRID: Another ambition is to further integrate and embed responsible and sustainable practices throughout the organisation.

How would you like to see H&M evolve?

ROLF: We have a target to increase our number of stores by 10-15% per year with maintained profitability. I hope we will succeed with that target while keeping our focus on people, planet and profit in a balanced way. If we manage with that, I think nothing can stop us!

SUSTAINABILITY STRATEGY

Our sustainability strategy guides us in our aim to become an economically, environmentally and socially sustainable company. There are three key elements to the sustainability strategy – our sustainability vision, our sustainability policy and our long-term CSR goals.

In 2007 we revised our sustainability vision and during 2008 we have moved one step further by developing a new sustainability strategy.

Our aim is to become a business where sustainability is a natural and integrated part of everything we do and is a responsibility that is shared and managed by every department within H&M.

Based on the concept of shared responsibility, the strategy means that we will move from having a CSR department that coordinates our sustainability activity to a CSR support department that guides and advises other departments within H&M as they set and move towards their individual sustainability goals.

Sustainability for H&M covers three areas: People, Planet and Profit. These three areas cannot be treated separately. They are deeply interconnected.



OUR BUSINESS CONTINUED

We think the further integration of sustainability into our business will support our aim to be at the forefront of our industry in environmental and social responsibility. Also, we see this as an important factor in strengthening our competitiveness and supporting us in our overall goal to increase the number of stores by 10-15% each year while maintaining a high profitability.

This new strategy was developed during 2008 and we will start to implement it from 2009 on.

OUR SUSTAINABILITY VISION

H&M's business operations shall be run in a way which is economically, socially and environmentally sustainable.

By 'sustainable' we mean that the needs of both present and future generations must be fulfilled.

OUR SUSTAINABILITY POLICY

H&M's business concept is to offer fashion and quality at the best price. Quality also means that the products have to be manufactured in a way that is environmentally and socially sustainable. Like all H&M's activity, our CSR work is based on a drive for continuous improvement.

We have a responsibility towards everyone who contributes to our success, including those who are not employees of H&M. That is why we work closely with our suppliers to develop a long-term, sustainable, social and environmental standard in the factories that manufacture H&M's products.

We have to ensure that our employees' human rights are not violated, and the same applies to employees of our suppliers and other cooperation partners, and to our customers.

We apply the precautionary principle in our environmental work and have adopted a preventative approach with the substitution of hazardous chemicals.

We strive to use resources as efficiently as possible and to minimise waste. By adopting new technologies and methods, we can work preventatively to minimise our environmental footprint through improved production processes and our choice of materials. We must continuously review the Company's goals and strategies to reduce our climate impact.

Our decisions are based on careful consideration, where shorter or longer-term environmental benefits are weighed up in order to ensure that we choose solutions that are sustainable in the long term.

We want to be a good global citizen and act responsibly in our business relations. We take a clear stand against all forms of corruption. We engage in dialogue with all our various stakeholders to build trust in our operations within the environment which we rely on for our long-term success.

LONG-TERM CSR GOALS

At H&M we follow two long-term goals in our CSR work. Part of our new sustainability strategy around shared responsibilities will be to develop these goals further according to our approach of a shared responsibility and the interconnection of People, Planet and Profit. This process will continue with the implementation of the new strategy during 2009.

- **RESPECT FOR HUMAN RIGHTS IS AN INTEGRATED PART OF H&M'S OPERATIONS.**

Everyone employed by our suppliers and their subcontractors are, at a minimum, guaranteed their rights stipulated by relevant laws covering labour rights, health and safety in the workplace, as well as by the International Labour Organisations's core conventions.

- **RESPECT FOR THE ENVIRONMENT IS AN INTEGRAL PART OF H&M'S AND OUR SUPPLY CHAIN'S BUSINESS PRACTICES.**

Through responsible acting and innovative thinking we contribute to sustainable use of raw materials and energy, pollution prevention and a low-carbon – emitting society.

OUR BUSINESS CONTINUED

CSR MANAGEMENT

H&M's global CSR team comprised 86 people by the end of 2008. All-in-all, ten people work in the CSR department at our Head Office in Stockholm. They are:

- Three environmental coordinators
- Four Code of Conduct coordinators
- One community investment coordinator
- One IT administrator
- One Head of CSR, Ingrid Schullström, who reports directly to our CEO

The other 76 team members are based in our production offices around the world and report into the CSR department as well as their local offices. They are:

- 60 auditors, of which seven are focused on environmental as well as health and safety issues
- Three regional coordinators
- Six Code of Conduct managers
- Three administrators
- One Code of Conduct controller (Hong Kong)
- One global coordinator for environmental and health and safety audits (Hong Kong)
- One fabric and fibre coordinator (Shanghai)
- One project manager (Dhaka)

CSR ORGANISATION

| | |
|---------------------------|---------------------------------------|
| CSR MANAGER (1) | |
| CSR DEPARTMENT (9) | Environmental coordinators |
| | Code of Conduct coordinators |
| | IT coordinator |
| | Community investment coordinator |
| PRODUCTION OFFICES | Regional Code of Conduct coordinators |
| | Code of Conduct managers and auditors |
| | Global EHS coordinator |
| | Fabric and fibre coordinator |
| | Administrators and project managers |
| EMEA (16) | |
| FAR EAST (42) | |
| SOUTH ASIA (18) | |

STAKEHOLDER ENGAGEMENT

An important part of our CSR strategy is engaging with stakeholders. We do this on a regular basis and aim to discuss issues with our stakeholders openly. We meet with industry groups and NGOs, hold investor and analyst meetings and have conducted stakeholder feedback on our CSR communications. We have also had some of our most important stakeholders comment on our CSR efforts for this sustainability report. Read their comments from page 11.

Our approach is to take a pragmatic and realistic view. We do not believe in making empty claims about change when often the issues we face do not have quick fixes. Instead we take a considered approach and focus on issues where we can make the most difference, or work in partnership with others on issues that are outside our direct influence. You can read about some of our key stakeholder relationships with different organisations, initiatives and NGOs in the relevant sections of this report. Also, you can find more information on how actively H&M is engaged with some of our stakeholders through corporate memberships or Other Initiatives on page 41.

“H&M of today aims for transparency and is involved in stakeholder dialogues, joint initiatives and reports in-depth on their CSR work. The Company also reports on negative aspects and challenges and gives room for its critics to express their views.”

Anna Nilsson, Swedbank Robur, Sweden.

MATERIALITY

To consider our material issues we continually assess the topics under discussion with our stakeholders. We took part in the formulation of the Global Reporting Initiative (GRI) sector supplement for the apparel and footwear sector which gave us insight into stakeholder expectations. Previous stakeholder surveys on our CSR communications have provided information on how our stakeholders perceive us. The main feedback we have received regarding our CSR reporting has been that we have not demonstrated the extent to which our suppliers and their subcontractors comply with our Code of Conduct, and what progress is being made. With a new IT tool in place since early 2007, we are now able to provide some data on the progress in connection with those production units which have now entered their second audit cycle. Read more about this in Our supply chain from page 14 and Our performance in the performance section of the online Sustainability Report.

OUR BUSINESS

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MEMBERSHIPS, INDICES AND AWARDS

We work directly with our suppliers to help them improve working conditions and environmental management in their production units. We also aim to improve workers' understanding of their rights.

In addition to this we feel that working in partnership with other organisations, such as NGOs, trade unions or other companies, can help to tackle issues of collective concern more effectively than we can individually. Working in partnership or being members of sector or issue-based initiatives can also help H&M learn and improve as an organisation.

This section summarises some of our memberships and partnership organisations. It also covers recognition through sustainability indices or rankings and awards we have received for our CSR work.

MEMBERSHIPS

UN Global Compact

We are signatories to the United Nations Global Compact and support the UN Millennium Development Goals.

The Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. By doing so, business, as a primary agent driving globalisation, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere.

In June 2008 we also signed up to the CEO Water Mandate, a voluntary initiative from the Global Compact addressing the urgent issue of water scarcity. For more information please see Our Environment section of this report on page 27.

Product and supply chain-related memberships

H&M is committed to address the issues that we face in our supply chain. We aim to take a considered and thorough approach to complicated issues. There are challenges we face in our supply chain that are complex and difficult to tackle as an individual company.

As a result, we aim to cooperate with other companies, organisations and stakeholders, sharing the responsibility of rising to these challenges and achieving genuine results. We are active members of the following organisations and initiatives:

Fair Labor Association

We are accredited members of the Fair Labor Association (FLA), a non-profit organisation dedicated to improving working conditions in factories worldwide. The FLA conducts independent audits of suppliers that we use in China and publishes results on their website.

We became accredited members of the FLA in 2008 following a two-year assessment process by the FLA. In 2009 we will extend our association with the FLA to independently audit some of the suppliers we use in Turkey. Other members of the FLA include Adidas, Nike, Liz Claiborne, Eddie Bauer, Puma, Columbia Sports Wear, Patagonia and Nordstrom.

For more information on our work with the FLA see the Independent Monitoring section of this report.

www.fairlabor.org

Multi-Fiber Arrangement (MFA) Forum Bangladesh

H&M participates in the MFA Forum Bangladesh. The textile industry in Bangladesh faces a number of challenges that we believe should be dealt with at national and industry level rather than at company level. There are currently 67 members of the MFA, including brands, representatives of the Bangladeshi government, the local industry organisations BGMEA and BKMEA, the World Bank, Oxfam, the global trade union organisation ITGLWF and a number of other organisations.

OUR BUSINESS CONTINUED

Currently H&M is co-chair of the Bangladesh working group of the MFA and in 2008 attended numerous national-level meetings in Bangladesh as well as on an international level. The forum discusses various issues, including wages and responsible purchasing practices.

www.mfa-forum.net

Better Factories Cambodia

H&M has been supporting the Better Factories Cambodia (BFC) programme since 2005. This initiative aims to improve working conditions in Cambodia's export garment factories. The BFC programme is managed by the International Labour Organisation (ILO) and supported by the Cambodian government, the Garment Manufacturers Association of Cambodia (GMAC), a number of trade unions and international brands. Its work includes independent monitoring according to the international ILO standards and national law and is complemented by an extensive capacity building programme.

H&M's suppliers in Cambodia are covered by the BFC monitoring programme, which is run by ILO auditors on behalf of the BFC. Around 600 workers, managers and union representatives from our Cambodian suppliers joined BFC training sessions during 2008.

Through our work with the BFC we have seen a positive influence on our suppliers' level of compliance with our Code of Conduct. For example, although overtime exceeding legal limits remains an issue, our audits identified good progress during 2008. From 2009 we have decided to rely on the ILO audits to show compliance with our Code of Conduct, although we will continue to carry out our own audits for environmental requirements as these are not covered by the ILO audits. Also, follow-up audits will still be conducted by our own auditors in order to assess progress.

www.betterfactories.org

www.ilo.org

Read more about other initiatives in Our Supply Chain section from page 14.

Environmental memberships

We are active members of the following environmental organisations and initiatives:

BETTER COTTON INITIATIVE

H&M plays a very active role in the Better Cotton Initiative (BCI) and is currently the vice-chair of the BCI steering committee. Established with the help of the WWF and others, the Better Cotton Initiative aims to promote measurable improvements in the key environmental and social impacts of cotton cultivation worldwide to make it more sustainable (economically, environmentally and socially). BCI members include, IKEA, GAP Inc., Adidas, Organic Exchange, Oxfam, Pan UK, WWF, IFC and cotton producers. For more information on the BCI see the cotton section of this report on page 31.

www.bettercotton.org

ORGANIC EXCHANGE

Organic Exchange is a non-profit organisation that is committed to expanding organic agriculture, with a specific focus on increasing the production and use of organically grown fibres such as cotton. We work with Organic Exchange in relation to the use of organic cotton in our garments and to promote organic cotton farming. For more information on organic cotton see the cotton section of this report on page 31.

www.organicexchange.org

OUR BUSINESS CONTINUED

EUROPEAN RETAIL ROUND TABLE

H&M is a member of the European Retail Round Table (ERRT) and has signed up to the Retail Declaration on Energy Efficiency and Renewable Energy provided by the ERRT. The Declaration commits H&M to reduce energy use in store by 20% per square metre and to source 20% of energy from renewable sources by 2020. We are also active in developing ERRT's initiatives to reduce the environmental impact of road transport. For more information on our environmental initiatives, including transport and energy, see the environment section of this report from page 27.

www.errt.org

CLEAN SHIPPING PROJECT AND CLEAN CARGO

During 2008 we have been involved in two initiatives to reduce the impact of shipping our products. The Clean Shipping Project is an initiative between the Swedish government and different companies (www.cleanshippingproject.se) and Clean Cargo is a workgroup of Business for Social Responsibility (www.bsr.org). To concentrate our efforts in this area we decided from 2009 to focus our activities within the Clean Shipping Project. More information can be found in the Transporting Goods section of this report on page 32.

Product quality-related memberships

AFIRM

H&M is a member of the steering committee of AFIRM, which is a multi-company forum that aims to advance the global management of restricted substances in the apparel and footwear supply chain. In 2008 we attended several meetings and jointly organised a seminar in Delhi, India, to educate suppliers of AFIRM members on chemicals management. For more on our approach to chemicals management see the restricting hazardous chemicals section of this report on page 40.

www.afirm-group.com

SIS

Swedish Standard Institute (SIS) is the centre for work on standards in Sweden and a working partner in the European and global networks CEN and ISO. We are active within several SIS working groups on national level as well as on the level of SIS European counterpart CEN (www.cen.eu). Through this we are looking at issues such as flammability, wash resistance of garments, chemistry, child safety and common sizing in Europe. Through working with SIS and sharing experience and knowledge we aim to improve common quality standards across our global production.

www.sis.se

ETHICAL INDICES AND RANKINGS

Ethibel Sustainability Index

H&M is in the Ethibel Excellence and Pioneer rankings.

The Ethibel Excellence Index® consists of some 280 company stocks from Europe, North America and Asia-Pacific (DJ Stoxx 1800 Universe). It consists of companies showing, on the basis of Vigeo ratings, above-average performance in terms of social and environmental sustainability and meeting the ethical criteria established by the independent organisation Forum Ethibel.

The Ethibel Pioneer Index® consists of some 200 company stocks from Europe, North America and Asia-Pacific (DJ Stoxx 1800 Universe). It consists of companies showing, on the basis of Vigeo ratings, the most outstanding scores in terms of social and environmental sustainability and meeting the ethical criteria established by the independent organisation Forum Ethibel.

www.ethibel.com

FTSE4Good Index

H&M continued to be a member company of the FTSE4Good Index series in 2008.

FTSE4Good is an index series for Socially Responsible Investment (SRI) set up by FTSE, a leading global index provider. FTSE4Good aims to set an objective global standard for socially responsible investment and is one of the benchmarks to consider when comparing ethical funds against an index of its peers.

www.ftse.com

ECPI

H&M is a constituent of two of E.Capital Partners' ethical indices, the ECPI Ethical Index Euro, and the ECPI Ethical Index Global. The ECPI European index selects the 150 top capitalised companies in the European market that are eligible investments according to the ECPI Socially Responsible Investment (SRI) Screening Methodology. The Global index selects the 300 top capitalised companies in the global market.

www.e-capitalpartners.com

OUR BUSINESS CONTINUED

AWARDS

Global 100 most sustainable corporations

For the fourth time in five years H&M has been listed as one of the Global 100 most sustainable corporations by Corporate Knights and Innovest Strategic Value Advisors. The list has been published since 2005 and H&M has appeared on it every year except 2007.

www.global100.org

Brands with a conscience

In 2008 the Medinge Group, an international think-tank on branding and business, released its fifth annual 'Brands with a Conscience' list. The 2008 list, which included H&M, identified eight business brands that are considered to contribute to the development of society by behaving in a sustainable, socially responsible and humanistic way, while remaining successful and profitable. In the analysis, the Medinge Group stated "H&M has grown into one of the most demanding fashion producers in the world, and today stands as a benchmark of standards for the industry".

www.medinge.org

STAKEHOLDER FEEDBACK

Feedback on our CSR activities and objectives is very valuable to us. Dialogue with our stakeholders is an important part of H&M's ambitions to improve our CSR work even further. Below you will find comments from four of our key stakeholder representatives. These are:

Clean Clothes Campaign, Ineke Zeldenrust

<http://www.cleanclothes.org>

Fair Labor Association (FLA), President and CEO, Auret van Heerden

<http://www.fairlabor.org>

Swedbank Robur, Anna Nilsson

<http://www.swedbankrobur.se>

UNI (Union Network International), Jan Furstenborg

<http://www.uniglobalunion.org>

Questions & Answers:

Clean Clothes Campaign, Ineke Zeldenrust

<http://www.cleanclothes.org>

WHAT IS YOUR OVERALL IMPRESSION OF THE CSR WORK OF H&M?

Our overall impression is that H&M has a relatively/comparatively strong approach towards supply chain issues, in particular, when violations are reported by local actors. Progress on the factory level remains limited. H&M could play a bigger role in developing a sectoral approach to preventing labour rights violations.

WHAT IS GOOD ABOUT THE CSR WORK OF H&M FROM YOUR PERSPECTIVE?

We appreciate the transparency about FAP findings, but this could be strengthened by disclosing supplier factory names and by disclosing comparisons over time. H&M quickly responds to urgent appeals, but H&M could do more to prevent violations which are systemic. For example in ensuring all workers have contracts and management provides access to union representatives. CCC has developed a number of such proposals at country and global level. For more information see 'Sector-Wide solutions for the Sports Shoe and Apparel Industry in Indonesia' or chapter seven in the 'Clearing the Hurdles' report.

WHAT COULD BE IMPROVED?

We believe H&M should endorse a living wage standard. H&M should clarify its relationships with MSIs, it appears its FLA membership is restricted to China and works with other MSIs only on a project basis. H&M should push the FLA on the living wage issue and develop relations with global trade unions and strengthen the participation of labour rights NGOs and trade unions within the organisation. In the absence of this membership of the FLA remains limited.

WHAT ARE KEY STRATEGIES H&M SHOULD TAKE TO IMPROVE THIS?

One strategy that could be helpful is to sign an international framework agreement with ITGLWF.

MSIs = multistakeholder initiatives

Fair Labor Association (FLA), President and CEO, Auret van Heerden

<http://www.fairlabor.org>

WHAT IS YOUR OVERALL IMPRESSION OF THE CSR WORK OF H&M?

The H&M programme is very thorough, very frank and very serious.

HOW DO YOU SEE THE PROGRESS OF H&M'S CSR WORK SINCE ITS FORMAL START IN 1997?

H&M is constantly learning and improving.

WHAT IS GOOD ABOUT THE CSR WORK OF H&M FROM YOUR PERSPECTIVE?

The tools are advanced and regularly reviewed. H&M's staff members are well trained and well versed in local language and culture. H&M maintains good relations with stakeholders.

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WHAT COULD BE IMPROVED?

From my point of view, evaluation and impact measurement could be improved. Also a greater use of key performance indicators to track progress and there should be an increased capacity building at factory level. H&M should also strengthen the engagement of worker representatives in identifying and resolving workplace issues.

WHAT ARE KEY STRATEGIES H&M SHOULD TAKE TO IMPROVE THIS?

I think, an expanded participation in FLA 3.0 could help very much to improve in these regards.

Swedbank Robur, Anna Nilsson

www.swedbankrobur.se

WHAT IS YOUR OVERALL IMPRESSION OF THE CSR WORK OF H&M?

In Swedbank Robur's sustainability analysis, H&M's CSR work is top ranked within its sector and the company is approved of for all our SRI-funds. The challenges in the areas of human rights, labour rights and environment are very high within the sector as the production is conducted in low cost countries in the supply chain and therefore we do see room for improvement in spite of our high ranking of the company's CSR work.

HOW DO YOU SEE THE PROGRESS OF H&M'S CSR WORK SINCE ITS FORMAL START IN 1997?

Swedbank Robur's first sustainability analysis of H&M was conducted in 1997. That year H&M launched its first Code of Conduct for suppliers, but did not do any sustainability audits. H&M did not have an environmental policy and did not report on sustainability issues. In fact H&M was "famous" for its non-transparency on sustainability issues! In summary we see that H&M has built its CSR work from scratch during the last eleven years.

WHAT IS GOOD ABOUT THE CSR WORK OF H&M FROM YOUR PERSPECTIVE?

H&M makes a clear statement that they are responsible towards everyone who contributes to the company's success including the employees of their suppliers. H&M has conducted over 15,000 supplier audits during the last decade and has now deepened its approach with the new Full Audit Programme system with more focus on cooperation with the suppliers to solve the problems as well as the ordinary CoC-audits. The company has a large team of full time CoC-auditors and the quality controllers and purchasers also take part in the CoC-audits. H&M has been accepted as a participating company of the Fair Labor Association, which conducts independent external audits of H&M's supply chain. H&M also conducts environmental projects in the supply chain.

The CSR Manager reports directly to the CEO. We consider it very positive that the CSR Manager has taken the global responsibility for management of the employee relations during 2006 and also that H&M's agreement with Union Network International and the European Works Council. Before issues regarding the internal labour rights were only handled locally. The company has also developed a Code of Ethics.

H&M of today aims for transparency and is involved in stakeholder dialogues, joint initiatives and reports in-depth on their CSR-work. The company also report on negative aspects and challenges and give room for its critics to express their view. Today the company is known to act instantly when an outside party reports on bad conditions in their supply chain.

WHAT COULD BE IMPROVED?

We would like to see enhanced reporting on the results of the supplier audits and the status of the sustainability level in the supply chain as the production is conducted in countries with high risk for bad labour and environmental conditions. We would also like to see more in-depth reporting on how H&M work with suppliers where the employees are not members of a trade union or have no right to collective bargaining. H&M has allocated large amount of resources for the auditing and awareness processes but its hard do evaluate the results on supplier level.

Also, the purchasing process of the company needs to be adjusted to make it easier for the suppliers to fulfil the demands of the Code of Conduct (e.g. reasonable demands on delivery times). It is also important to encourage the suppliers to improve on their CSR-standard, for example through more business.

Today H&M is mainly focusing on their 800 direct suppliers and only partly on the suppliers sub-suppliers which is a weak point in the company's responsibility work. The question of lack of control of the raw material production (e.g. cotton) is a sensitive area that H&M will always be seen as responsible for however difficult the control is.

UNI (Union Network International), Jan Furstenborg

www.uniglobalunion.org

WHAT IS YOUR OVERALL IMPRESSION OF THE CSR WORK OF H&M?

In H&M, social responsibility is clearly an integral part of the company's management culture, surely reflecting also its Swedish and Scandinavian origin. Not many retailers invest so much effort into making sure that their principles are applied both in the supply chain and in human resource management

OUR BUSINESS CONTINUED

practices as H&M apparently is doing. The company is clearly a leader in the CSR area.

HOW DO YOU SEE THE PROGRESS OF H&M'S CSR WORK SINCE ITS FORMAL START IN 1997?

I have not followed the supply chain related CSR work of H&M from its start, but I have worked with the company on labour relations issues. My impression is that H&M takes its responsibility for its personnel very seriously, and approaches any problems through social dialogue in an open and professional way. The company clearly respects its workers' rights and has no problems in recognising their right to organise into trade unions and to negotiate collective agreements.

WHAT IS GOOD ABOUT THE CSR WORK OF H&M FROM YOUR PERSPECTIVE?

Corporate social responsibility must be part of a company's culture and management system. This requires a strong commitment of the top management, which quite obviously is the case in H&M. It would feel to me that H&M is well on its way into the next generation of CSR, when human and social values are completely integrated into mainstream activities.

WHAT COULD BE IMPROVED?

When globalisation leads to consumer products being increasingly made in countries with insufficient structures and traditions to take care of people's rights at work and their living conditions, serious moral and ethical problems emerge. Without commenting on H&M particularly, as the issues are general, large retailers should pay even more attention to ensure that their purchasing practices promote social and economic justice and development and the creation of trade unions and employers association who can take responsibility for regulating employment and working conditions in tripartite cooperation through local governments.

WHAT ARE KEY STRATEGIES H&M SHOULD TAKE TO IMPROVE THIS?

Today, voluntary CSR initiatives are still needed to ensure respect for workers' economic and social rights in the supply chains.

As a leader in the field, I would hope that H&M would participate more actively also in those business driven schemes where other participants are very much dependent on the good practice experiences of others to develop their own approach.

The retail industry is now fast moving towards recognising the need for CSR in their supply chains and companies like H&M could play a major role in promoting this.

To set a level playing field where all major retailers are prepared to accept the costs of social responsibility is essential to improve the conditions of the disadvantaged worker.

HOW WE REPORT

We report activities and progress on our CSR programmes annually. This report covers H&M's global operations from January to December 2008. This year, it also applies to the supply chain monitoring data.

Fiscal information and details about our employees are reported according to our annual reporting cycle of 1 December 2007 to 30 November 2008. Our last CSR report was published in May 2008.

GLOBAL REPORTING INITIATIVE (GRI)

We use the GRI guidelines and the pilot Apparel and Footwear Sector Supplement to inform our sustainability reporting. A GRI reference table can be found in the Performance section of this report online. We have included the indicators from the pilot of the Apparel and Footwear Sector Supplement but have not included them in our self-assessment rating as they are not yet finalised.

ASSURANCE

We do not currently assure our report. While we recognise that some stakeholders appreciate assurance, we believe our resources are presently still best placed in furthering our corporate social responsibility work. We are committed to open and honest disclosure and this report is part of that process. We do not rule out the possibility of modifying our approach to assurance in the future. However, we believe that, for now, the comments of some of our most important stakeholders, as published in this report, add a high value and credibility to our reporting. Since 2006 we have also worked with the Fair Labor Association (FLA) to independently monitor our Chinese suppliers and in 2008 we became an FLA accredited company. Independent monitoring will be extended to Turkey in 2009. Read more at www.fairlabor.org.

For further information please contact:
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OUR SUPPLY CHAIN

We believe we have a responsibility towards everyone who contributes to our success. This includes our suppliers and their employees. H&M does not own any of the factories that manufacture our products. In 2008 there were around 800 suppliers that received orders or could potentially have received orders from H&M and therefore were part of our Full Audit Programme. Manufacturing took place in a total of around 2,700 production units, mainly in Asia and Europe, producing garments, accessories, shoes, cosmetics and now also home textiles for H&M. As a large international company and buyer we strive to promote workers' rights in our suppliers' factories and to positively influence our suppliers to improve working conditions in their operations.

CODE OF CONDUCT

The H&M Code of Conduct is our main tool for helping our suppliers to improve working conditions and environmental practices. Suppliers must work towards meeting all the requirements set out in our Code of Conduct and we conduct regular audits to assess levels of compliance with the Code.

This section provides details on our approach to purchasing and our suppliers, and introduces our Code of Conduct and supplier auditing programme. Detailed data and results of our audit process can be found in the Performance section online. Read more about our Code of Conduct on the following pages.

OUR SUPPLY CHAIN

Our supply chain involves a number of processes and people.

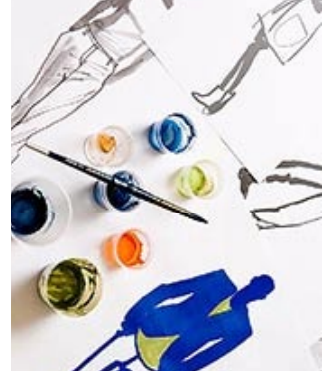
The descriptions below explain some of the key roles in managing our supply chain.

BUYER Our buying office is based in Stockholm, Sweden, where our buyers, together with our designers and pattern makers, create, plan and purchase our collections.

MERCHANTISER Based in our production offices in Asia and Europe, merchandisers are the link between H&M's buying office and our suppliers. They identify suppliers to meet demand from the buying team.

AUDITOR Also based in our production offices, our team of 60 auditors monitor suppliers' compliance with our Code of Conduct. Auditors conduct the H&M Full Audit Programme (FAP), which includes full audits for potential new and existing production units and follow-up audits (FUP) that assess improvement progress and the implementation of H&M requirements. Together with our regional CSR coordinators and Code of Conduct managers, they also maintain and establish our local networks with various organisations such as NGOs or trade unions.





OUR SUPPLY CHAIN

CONTINUED

FACTORY EMPLOYEE As a company we have the opportunity and responsibility to improve the working conditions in our suppliers' factories. We promote the rights of the employees and our aim is for them to be aware of and able to claim their rights at work. We also think that everyone contributing to the success of H&M should earn a decent wage. As a buyer and through our Code of Conduct we strive to ensure the payment of legal minimum wages. We recognise that minimum wages do not always cover the basic needs and we agree with the ILO Global Wage Report 2008/09, which states that "the levels of minimum wages should be increased". We believe that collective bargaining processes are the most sustainable way to define wages. Raising awareness about workers' rights and the right of the freedom of association are important contributions in this regard.

SUPPLIER H&M does not own or operate any factories producing its goods, but instead works with approximately 800 suppliers and around 2,700 production units mainly in Asia and Europe. The number of suppliers reflects those which received orders from H&M in 2008 as well as those which could potentially have received orders and therefore have been part of our regular Full Audit Programme. We actively work with them to improve working conditions in their own and subcontracted factories. We strive for long-term partnerships with our suppliers and support them in taking responsibility for the conditions in their factories and for implementing improvements. In some cases, we also try to contribute to improvements at earlier stages of our production chain (second-tier suppliers), although our influence is much more limited here.

DEFINITIONS:

SUPPLIER: An independent company with which H&M has a direct business contract.

PRODUCTION UNIT: All units (factories) where production for H&M takes place. This includes our suppliers' own factories as well as factories which are subcontracted by our suppliers.

SECOND-TIER SUPPLIERS: The suppliers to our suppliers, such as fabric or yarn manufacturers. In almost all cases H&M has no direct business relationship with these suppliers.

OUR APPROACH TO PURCHASING, SUPPLIERS AND THE PRODUCTION CHAIN

H&M has its own buying organisation which is responsible for designing, planning and purchasing our collections.

Design decisions are made in our buying office in Stockholm. Our 18 production offices around the world are responsible for identifying the right suppliers and allocating production. Working alongside them is our global auditor team comprised of 60 people. They are responsible for monitoring how well potentially new and existing suppliers are complying with our Code of Conduct, which forms the basis for our auditing programme. The results from this auditing process are one of the factors that influence which suppliers we work with, as well as, for example, price and quality. They determine which suppliers cannot be used due to Code of Conduct related reasons. Read more on the results of our audits in Audit Findings and Progress page 22.

During 2008 we created and distributed a new Code of Conduct guidance manual aiming to increase understanding of the Code among our suppliers. Read more in the Code of Conduct section on page 16.

A PARTNERSHIP APPROACH

Our approach to our suppliers is to create long-lasting and meaningful relationships. We strive to work towards partnerships with our main suppliers because it provides benefits for both sides. Partnership working allows our suppliers to plan ahead and invest in improvements in their operations. H&M benefits by having secure supply structures and good-quality suppliers who can be trusted and relied on.

For over ten years we have been working to raise the standard of working conditions in the factories where our products are made. One challenge we still face is how to make changes that will have a lasting impact on these factories. Establishing long-term partnerships with suppliers enables us to work with them to raise awareness of the benefits of improving conditions in their factories and this can lead to long-term and sustainable improvements in working conditions and environmental management in our supply chain.

OUR SUPPLY CHAIN

CONTINUED

In the longer term, our aim is for working conditions at our suppliers' factories not to be dependent on us. Instead, we support factory managers and workers themselves to be more aware of employee rights and good working conditions so that they shall be able to take control of and improve their own situation.

CODE OF CONDUCT

H&M's Code of Conduct was drawn up in 1997 and is based on the UN Convention on the Rights of the Child and the International Labour Organisation's (ILO) Declaration on Fundamental Principles and Rights at Work.

It also stipulates that local legislation must be observed. The Code is available in around 25 languages. You can download the full Code of Conduct online at www.hm.com/csr

The Code of Conduct applies both to our suppliers with whom we have a direct business relationship and to all their production units and subcontractors where production for H&M takes place. Subcontractors may be contracted by our suppliers to perform a part of the production process and in that case are also covered by our Code of Conduct and our Full Audit Programme. Our Code of Conduct has eight sections, covering:

- Legal requirements
- Child labour
- Safety
- Workers' rights
- Factory conditions
- Housing conditions
- Environment
- Monitoring and compliance

In 2008 we started to review the Code of Conduct to expand the scope to include, for example, suppliers of shop fittings or other materials.

Compliance with the Code of Conduct is assessed by our Full Audit Programme (FAP), which was revised in 2008. Read more about Auditing and Compliance.

During 2008 we created and distributed a new Code of Conduct supplier guidance manual. The aim of the manual is to increase understanding of the Code among our suppliers and their subcontractors and ultimately improve compliance with the Code. In addition to containing the Code it also explains H&M's expectations of suppliers in a clear way. The guidance

manual is currently available in English, Chinese, Turkish and Romanian.

Our suppliers purchase materials such as fabric, buttons and zips from other suppliers known as second-tier suppliers. In general we do not have direct business relationships with second-tier suppliers and are therefore not able to set Code of Conduct requirements. We aim to support some second-tier suppliers on a voluntary basis to contribute to improvements when possible. One example is our Cleaner Production Programme, which helps a number of fabric manufacturers to reduce their environmental impact from page 30. In some cases H&M has direct contacts with fabric or yarn suppliers through our production offices. In 2008 we conducted an assessment with around 20 dyeing mills in China. We plan to start a pilot project in China focusing on chemical handling and wastewater treatment, since these are the most urgent issues.

SUPPLIER GRADING

To become an H&M supplier, it is not necessary to meet all the demands in our Code of Conduct in advance. But all production units do have to meet the standards according to the 'temporary' grade detailed below. This includes a ban on child labour, compliance with the ILO's core conventions, minimum wage for all employees and fundamental safety at the factory.

All potential new suppliers or production units have to be approved by H&M's CSR department through our Full Audit Programme. If one is judged not to have the necessary preconditions, they will not be considered.

Existing H&M suppliers are also graded according to the categories below and these grades are communicated to our merchandising teams who source suppliers to make our products. Grading levels are also communicated to our suppliers in order to cooperate in a fair partnership and to make clear what our expectations are.

This also supports us in our aim to further integrate our suppliers' level of compliance to our Code of Conduct into our buying process. See the Integrating CSR in Purchasing section for more information.

We use the following five point grading system to monitor progress towards full compliance with our Code of Conduct. Suppliers can move up the grading system depending on their actions. To support progress, they cannot grade down to 'temporary' from a previous higher grading. A downgrade from

OUR SUPPLY CHAIN

CONTINUED



a higher level will lead to rejection. Suppliers that are graded 'permanently rejected' are not allowed to work for H&M ever again. However, contributing to progress has priority for us rather than just shifting production elsewhere. The five supplier grades are:

PERMANENTLY REJECTED: a supplier/production unit repeatedly employs child labour or a supplier repeatedly uses undeclared production units. No production of H&M goods will ever be allowed.

REJECTED: a supplier/production unit is rejected for any of the following: denies workers' basic rights; the minimum wage is not paid; factory premises are unsafe; H&M is denied access to factory premises; management refuses to cooperate. The supplier/production unit is suspended but can resume business with H&M if the necessary improvements are carried out and verified.

TEMPORARY: the supplier/production unit fulfils requirements regarding basic worker rights, minimum wage, basic safety and basic housing conditions. It is temporarily approved to produce H&M goods for six months. In this time the supplier/production unit must make the improvements necessary to reach the 'insufficient' grade, otherwise the grading will drop to 'rejected'.

INSUFFICIENT: the supplier/production unit fulfils the 'temporary' grading requirements plus some additional requirements, but it needs to make further improvements to reach full compliance. The production of goods is approved.

SATISFACTORY: the supplier/production unit fulfils all Code of Conduct requirements and the production of H&M goods is approved and promoted.

INTEGRATING CSR IN PURCHASING

Fashion today works in short seasons or cycles. We plan our collections up to one year ahead. However, sometimes short production times are needed. Without responsible buying practices this can result in both time and financial pressures on suppliers that prevent them from safeguarding employee rights and the environment.

Our challenge is to avoid causing this type of production pressure for our suppliers wherever possible. At H&M our approach is to create a pre-order product development plan before we confirm a production contract with the supplier. Such a plan involves confirming the exact detail of the product before placing the order with the supplier wherever possible. This prevents the supplier from having to contend with changes to the product specification later in the production process.

Due to our close and long-term relationships with suppliers, we can also use our knowledge of a supplier's capacity, performance and adherence to our Code of Conduct in the product-planning process. All production units have a Code of Conduct grade based on the results of our Full Audit Programme and are made aware of their grading status. Also the merchandising teams know each production unit's grade during pre-order product planning. The grading influences the choice of suppliers along with factors such as price, capacities and quality. It also determines which suppliers cannot be used due to Code of Conduct reasons. Beside that, the grade and the development of the supplier in terms of working conditions and environmental management also plays a role when defining the quantities of orders placed at certain supplier. Read more about supplier grading on page 16 and 23.

Once contracted, the supplier is then responsible for the timing of the manufacturing and can more accurately price the work and control their own production plan based on our requirements.

We believe that pre-order product development planning is part of our overall approach of successful communication with our supply chain. We aim to provide clear information to our suppliers about our requirements in order to achieve a common understanding. Good communication also includes listening to our suppliers' needs and queries. We think that integrating commercial buying practices, such as capacity management and quotations, alongside our Code of Conduct work is a key part of successful, responsible buying practices.

Ensuring responsible buying practices while facing the current global economic situation is a challenge. But we feel this approach helps us to manage the continuous key challenges in our industry: speed of growth, the speed of fashion and the information needs of all the people involved in creating our products.

OUR SUPPLY CHAIN

CONTINUED



AUDITING AND COMPLIANCE

The Full Audit Programme (FAP) is the method we have in place for monitoring compliance with our Code of Conduct. Our major audit tool is the detailed FAP questionnaire, which consists of more than 90 main questions, with an additional number of verification points.

You can find most main questions and the findings related to them from our 2008 FAP audits as well as the progress made at those production units which have been in their second audit cycle during 2008 in the Performance section of this report online.

A thorough FAP audit is carried out regularly at all our production units. The purpose of the audit is to get a good understanding of the conditions at each production unit and to grade it against our Code of Conduct. This in turn leads to an agreed correction plan with the management, which aims to remedy breaches of the Code. While auditing the production units, an FAP aims to identify the most urgent issues to solve. The management of each supplier or production unit then needs to develop and own a correction plan. The progress is usually monitored by three follow-up audits (FUP).

REVISED AUDIT PROGRAMME FAP 2.0

During 2008 we have revised our Full Audit Programme. We assessed the results of the FAP over recent years and decided that our focus on certain areas of the FAP should be strengthened.

We have increased the focus on workers' basic rights, as defined by the ILO Declaration on Fundamental Principles and Rights at Work, and workers' employment rights, such as working hours, wages and leave.

All health and safety factors are still covered in the audit process, but only those focusing on the basic protection of human life, such as fire safety and hazardous chemicals, are now questions that influence a production unit's grade from the audit. Issues such as hygiene and first aid are no longer grading questions. To counter this we have developed a new 'overall impression' section within the FAP, which assesses the health, safety and cleanliness of a factory as a whole. For the first time we have also included a health and safety self-assessment process for selected suppliers to complete, which is reviewed together with our auditors during the audit. This procedure will be evaluated during 2009.

Another change to the FAP includes an update on the tool for auditors to assess the extent and sophistication of the supplier's management system. This tool gives the supplier a scorecard to highlight system weaknesses in different areas.

THE AUDIT PROCESS

In general terms, the audit process involves an inspection of the site and examination of a variety of company files and records, such as timesheets, pay slips and employment contracts to determine compliance with the questions within the Full Audit Programme questionnaire.

Management systems are analysed and interviews with employees and employers are conducted at the time of the audit. Interviews with employees are part of every FAP audit. They are usually conducted on the factory premises without management attending. The H&M auditors select the interviewees randomly and from a selection of different roles and departments within a production unit. We are aware of the risk of factory employees being influenced in the answers they give. It is therefore highly important that our auditors have very good interview skills. We are currently also looking at ways of improving direct communication between factory employees and H&M outside the normal audit process, for example in the event of an employee grievance.

Once the FAP audit is complete for all areas of our Code of Conduct (full audits can take up to six man days), the results are discussed with the management and a time frame to rectify areas of non-compliance is agreed. Following this, the supplier must draft a correction plan specifying timings and identifying those responsible for making the changes. This correction plan can include both short and long-term goals. H&M's auditors will then check on the implementation of the measures outlined with follow-up audits.

OUR SUPPLY CHAIN

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FOLLOW-UP AUDITS

Follow-up audits are part of the improvement process and allow a discussion of improvements in more depth. The focus of the follow-up is on the supplier's own solutions and progress. An important part of this process is to help the supplier understand the value of making improvements and how this benefits their business and their long-term relationship with H&M. This approach often results in greater trust and a better business relationship between suppliers and H&M. However, it is an ongoing challenge to reach this status of cooperation with suppliers and is part of our continuous improvement approach.

TARGETED VISITS

In some cases our auditors also conduct targeted factory visits such as visits at night and during weekends or holidays. The purpose of these visits is to see if production is running, to compare operating hours with time records and detect any unreported overtime. Another example is visits to factories on the day wages are paid in order to check whether the wages' register corresponds with the amounts that the workers have been paid. If any employee training, evacuation drills, or other activities aimed at improving safety or workers' awareness is scheduled, we may also visit the factory to observe.

OUR CSR TEAM

By the end of 2008 our CSR team was made up of 86 people who manage and conduct the audit programme. A few are located in our Head Office in Stockholm, Sweden, while most are located in the regions where our products are manufactured. They comprise the following:

| | | |
|-------------|----------|-----------------------|
| Head Office | Far East | } CSR staff worldwide |
| 10 | 42 | |
| South Asia | EMEA | |
| 18 | 16 | |

PRODUCTION COUNTRIES WITHIN OUR REGIONS

(ITALIC DENOTES WHERE CSR EMPLOYEES ARE BASED):

FAR EAST:

Cambodia, China, Indonesia, South Korea, Thailand, Vietnam

SOUTH ASIA:

Bangladesh, India, Pakistan, Sri Lanka

EMEA (EUROPE, MIDDLE EAST, AFRICA):

Bulgaria, Czech Republic, Egypt, France, Greece, Italy, Latvia, Lithuania, Mauritius, Morocco, Poland, Portugal, Romania, Spain, Tunisia, Turkey, Ukraine

| ROLE | HEADQUARTERS (SWEDEN) | FAR EAST | SOUTH ASIA | EMEA |
|----------------------|-----------------------|--|-----------------------|------|
| CSR unit | 10 | 1 (Global FHS coordinator) 1 fabric and fibre coordinator | 1 project coordinator | – |
| Regional Coordinator | – | 1 | 1 | 1 |
| CoC Manager | – | 3 | 2 | 1 |
| CoC controller | – | 1 | – | – |
| Auditor | – | 33 | 14 | 13 |
| Admin | – | 2 | – | 1 |
| Total | 10 | 42 | 18 | 16 |

AUDITOR TRAINING

Auditing the working conditions at our suppliers' factories is central to our approach to CSR. To do the job correctly we must ensure that our auditors are well trained and understand what it takes to audit a supplier.

NEW AUDITOR TRAINING

Our standard training programme for new auditors takes 12 weeks and consists of:

- Background reading on H&M's Code of Conduct, approach to auditing and guidelines for audit practice
- Standard H&M induction and training on a range of subjects including H&M's Full Audit Programme (FAP)
- Practical experience visiting factories, shadowing an experienced auditor and finally conducting an audit with a senior colleague
- General introduction to H&M from factory to store and an overview of the Production Office organisation.

OUR SUPPLY CHAIN

CONTINUED

In addition to new auditors we need to ensure our existing auditors keep up-to-date with changes to our audit system and undertake continuing professional development in the area of auditing.

In November and December 2008, all of our auditors were introduced to, and trained in, our new Full Audit Programme – FAP 2.0. The training included both theoretical and practical training on the new FAP 2.0 audit form and how to analyse management systems and EHS (Environment, Health and Safety) issues. The training covered all auditors and was held in Shanghai, Guangzhou, Bangalore and Istanbul.

AUDITOR PROFESSIONAL DEVELOPMENT

We aim to provide ongoing professional development and refresher training for all of our auditors. Below are some examples of training for auditors in China, our main sourcing market with the largest number of auditors in place.

Training in Shanghai included:

EXTERNAL TRAINING:

- Labour law, delivered by BSR, 15-16 March 2008
- Grievance procedures, delivered by the Fair Labor Association, 28-29 March 2008
- CSR management system, delivered by BSR, 20 June 2008
- Chemical handling, delivered by BSR, 18 July 2008
- Forced Labour, delivered by International Labour Organisation, 10 December 2008

INTERNAL TRAINING:

- Full Audit Programme (FAP) training and management system workshop, 7-8 May 2008
- Grievance systems, 14 August 2008
- FAP method and calibration training based on case studies, including audit methods, analysis of findings and report writing, and forced labour, 21 November 2008

Training in Guangzhou included:

EXTERNAL TRAINING:

- Grievance procedures, delivered by FLA, 26 March 2008
- Workshop about the new labour law, delivered by BSR, 21 April 2008
- Labour law, delivered by a Chinese law firm, 24 April 2008

- Correct deployment and use of personal protective equipment, delivered by 3M, 27 May 2008
- Workshop on remediation of child labour, delivered by Impactt, 8 August 2008
- Migrant worker forum, delivered by BSR, 15 August 2008
- Environmental Health and Safety/Chemical handling, delivered by BSR, 11 September 2008
- Hepatitis B information, delivered by BSR, 14 November 2008
- Forced labour, delivered by International Labour Organisation, 11 December 2008

INTERNAL TRAINING:

- Training in the Full Audit Programme method and tools, 21 April 2008
- Follow-up visit methods and reporting, and understanding and evaluating management systems, 24 April 2008
- H&M's Fair Labor Association membership and internal routines, 14 August 2008

INDEPENDENT MONITORING AND VERIFICATION

In 2006 H&M became a participating company in the Fair Labor Association (FLA) and in 2008 we became an accredited member. This means that our Full Audit Programme, used for monitoring suppliers' compliance with our Code of Conduct, and process for addressing violations of the Code are in line with FLA standards.

The FLA is an organisation that strives to improve labour conditions in factories around the world. Working with the FLA over the past three years has played an important part in our auditing process and its feedback has been valuable in guiding our approach to auditing.

During the past two years the FLA has conducted independent monitoring visits to production units in China and has inspected H&M's system for monitoring compliance with the Code of Conduct. Independent auditing gives H&M the opportunity to show our stakeholders how our audit system works and also to develop our own system further. Results are published on the FLA's website at www.fairlabor.org.

OUR SUPPLY CHAIN

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ACCREDITATION PROCESS

As part of the accreditation process and to assess H&M's programmes, the FLA conducted 17 independent monitoring visits and five verification audits at production units in China during 2008. Prior to accreditation in late 2008, FLA representatives also visited our Head Office in Stockholm to review how we control our auditing procedures centrally. Following this, a three-day assessment visit took place at our Hong Kong and Guangzhou offices, and FLA representatives shadowed two follow-up audits with suppliers in Dongguan and Shanghai.

Following our accreditation, the FLA identified several areas where they felt H&M's CSR programme is strong. These include:

- Close integration of CSR into the business of H&M, as demonstrated in pre-order and sourcing decisions and practices
- Sophisticated analysis of audit findings
- Skilled auditor and training corps, with particular strength in the area of worker interviews and good knowledge of grievance procedures and MSDS (Material Safety Data Sheet)
- Openness to feedback
- Awareness raising of workers and management, not only on child labour issues but also on fake documents and undeclared subcontractors innovation.

The FLA also suggested some areas where H&M should place more emphasis, based on its assessment of our approach in China. These are:

- Further work in building a system to verify that production units are receiving the H&M code, are aware of it, are integrating code elements into internal factory management systems, and are educating workers on those standards
- Continued strengthening and consistent application of grievance procedures and complaints handling and tracking at all offices
- Increased training on freedom of association, particularly with respect to remediation
- Development of a system to track and document open non-compliances and completed remediation
- Development of a more formal exit policy to ensure egregious non-compliances are addressed prior to exiting a factory and to maintain documentation of remediation efforts especially as related to IEMs
- More engagement with CSOs at the local level.

Some of the actions H&M has already taken in this regard: We have developed a Code of Conduct guidance manual, which aims to increase understanding of what H&M expects of our suppliers. Read more in the Code of Conduct section on page 16. We are also looking into developing direct grievance communication tools, aiming to enable workers to contact H&M directly in case of a grievance. We have employed a Code of Conduct controller, based in Hong Kong, and strengthened our organisation in regard to reporting and following up on several IEMs. For information about our 2008 auditor training in China please see the Auditor Training section on page 19.

Following our positive experience with the FLA in China, from 2009 on, the FLA will also conduct independent audits at H&M's suppliers in Turkey.

FLA 3.0

FLA 3.0 is the FLA's approach to create sustainable improvements in supply chain working conditions, with the aim of moving from policing to coaching. H&M is taking part in FLA 3.0, which complements our aim for suppliers to take more ownership of the conditions in their factories. Suppliers are more likely to address problems and achieve real progress if they understand the issues, their causes and what benefit improved practices can bring.

Currently only one of H&M's suppliers in China has chosen to take part in FLA 3.0 and we hope to involve more suppliers in 2009.

HOME WORKING

In some countries our suppliers may employ home workers for specific parts of the production process such as hand embroidering, beading and jewellery making. Home working makes it harder to monitor whether worker rights are being upheld.

However, it can be beneficial in some production countries because it is often carried out by women and can be an important contributor to a family's income.

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In many cases women home workers would be unable to take up employment due to household and parental responsibilities and women often tend to spend their income on their family, thereby improving living standards. For these reasons H&M has decided to accept home work in some situations. However, these situations are limited.

Our policy is that any operation that is part of the industrial process and can be performed in a factory should be performed there. Home work is only accepted when the work requires a special workmanship skill and can be considered as handicraft, such as beading or embroidery.

We do not accept home working for the following production processes:

- Assembly work
- Finishing (for example thread cutting)
- Fringing
- Packing of products or accessories to garments (for example spare buttons)
- Labelling
- Panel knitting
- Other types of simple tasks that can easily be performed in the factory
- Work involving any type of hazardous chemical that requires special ventilation or protective equipment.

MONITORING HOME WORKING

Home working often takes place in villages situated some distance from our suppliers' factories and the challenge for H&M is in adapting our methods for monitoring workplace standards.

Some of the issues surrounding home working are that:

- It is not always regulated by a country's labour laws
- There are often no formal contracts of employment
- Minimum wages may not be paid
- There may be issues with child labour
- There may be issues with illegal migrant workers
- Suppliers may be outsourcing simple tasks to avoid paying full wages and social security.

At H&M we require our suppliers to inform us when home working is being used. In accordance with our home worker policy this includes requiring the following information per order:

- Location of the production (village, city area, etc)
- Name and address of intermediaries (contractor/local agent)
- Number of workers involved
- Number of weeks for completing each home working order
- Average time needed to make one piece
- Piece rate paid to the worker.

In some countries, we now require our suppliers to make sure that, through the contractor or local agent, the home workers receive a work agreement. Some countries have already implemented these procedures, some others are still in early stages. Such a work agreement should include the following points:

- Children are not allowed to participate in the work
- Contact details of H&M's supplier
- Piece rate for each order (before start of the production)
- Quantity to be produced
- Timescale for delivery
- Conditions for any deductions from payment.

Before production can start, a further requirement we are aiming for, to be implemented globally, is that the supplier must have visited the location of the home working. Where already in place, we require written confirmation from the supplier on this point.

AUDIT FINDINGS AND PROGRESS

In 2008 we conducted a total of 2,509 (1,983 in 2007) Code of Conduct compliance audits throughout the countries where our suppliers operate, shown in the following table by region.

| TOTAL AUDITS BY REGION | 2008 | 2007 |
|------------------------|--------------|--------------|
| Far East | 1,145 | 592 |
| Asia | 615 | 657 |
| EMEA | 749 | 734 |
| TOTAL | 2,509 | 1,983 |

The audits are made up of initial full audits (FAP) as well as follow-up audits (FUP) to discuss correction plans and progress. Of the 2,509 audits, 812 (948) were FAP audits. The majority of all audits were unannounced in 2008 to ensure we are seeing a true reflection of working conditions. Increasing the number of

OUR SUPPLY CHAIN

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unannounced audits has been a focus in 2008. In total, 64.1% of all audits (FAP and FUP) were unannounced. By region, 70.1% of the audits in the Far East were unannounced, in South Asia 68.5% and 51.9% in the EMEA.

Follow-up audits accounted for 1,697 (1,035) of the 2,509 visits and by region this equates to 842 (292) in the Far East, 386 (425) in South Asia and 469 (318) in the EMEA and other countries. The high number of follow-up audits reflects the actual status in our audit cycle. The main purpose of follow-up audits is to assess how suppliers are addressing non-compliance issues identified during FAP audits.

FULL (FAP) AND FOLLOW UP (FUP) AUDITS BY REGION 2008

| REGION | FAP AUDITS | | FUP AUDITS | | TOTAL | |
|--------------|------------|------------|--------------|--------------|--------------|--------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Far East | 303 | 300 | 842 | 292 | 1,145 | 592 |
| South Asia | 229 | 232 | 386 | 425 | 615 | 657 |
| EMEA | 280 | 416 | 469 | 318 | 749 | 734 |
| TOTAL | 812 | 948 | 1,697 | 1,035 | 2,509 | 1,983 |

SUPPLIER GRADING LEVEL

During 2008, 254 production units got graded 'rejected' due to Code of Conduct violations and as a result were suspended from working with H&M. Out of these production units 159 remained rejected at the end of the year. However, if they make the necessary improvements and achieve at least the 'insufficient' grade or higher, it will be possible to place orders with them. One supplier was permanently rejected during 2008, due to the repeated use of child labour.

By the end of 2008 the majority of production units being used were graded 'insufficient'.

POTENTIAL NEW PRODUCTION UNITS

In 2008, 515 (505) audits on potentially new production units were conducted. 138 (111) were graded 'rejected' after the first audit. Some of these were considered to have potential for improvement and they were therefore given a second chance in connection with a follow-up audit. The total number of new production units that were finally approved to supply H&M was 312 in 2008 (385).

CODE VIOLATIONS

We monitor and report the number of violations against our Code of Conduct and the developments suppliers make to address those situations. Full details can be found in the performance section online.

SECOND-CYCLE MONITORING

We started implementing our Full Audit Programme in 2006 and we are now in the process of making second-cycle audits, which is a second full audit. In 2008 we made a total of 169 second-cycle FAP audits (ten in the Far East, 107 in South Asia and 52 in the EMEA). We have also started conducting some third-cycle FAP audits in South Asia and carried out six in 2008.

We are beginning to see some trends emerging. We will focus on these issues during follow-up visits in the second FAP cycle.

TRENDS IDENTIFIED

Most of the audited production units have grievance policies and records are kept, but communication with workers needs to be more regular and frequent. We have also seen increasing numbers of genuine complaints recorded. Many production units have also recruited welfare officers who are involved in the grievance and complaints system.

Welfare officers are also part of the education system and education for the workers is becoming common. However, it should still improve. Workers Welfare Committees, which help to improve communication between the management and factory workers, are also more common. However, these need to become more formalised and unfortunately in many cases the management selects members. We have identified that most production units have improved all types of leave. Maternity leave cases are more frequent and significant numbers are using the sick and casual leave to which they are entitled.

These trends are encouraging but there have also been serious violations identified. Cases of abuse have been found even though grievance systems are in place. It is still not easy for workers to obtain sick leave even though the numbers have improved. In addition, compensation for overtime in the heavy knit, knitting and dyeing sectors is not always paid consistently.

OUR SUPPLY CHAIN

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Another trend that we have identified is that improving trust between H&M and our suppliers has led to greater transparency, with more realistic figures declared, particularly concerning overtime hours above the legal limit. Now we see the real picture and we must start to address those issues together with our suppliers. We need to find solutions for capacity building that result in reduced overtime hours without affecting capacity planning, productivity or lowering workers' income, due to fewer working hours.

You can find more information on the findings from our 2008 audits as well as on the progress made from the first to now second audit cycle at comparable production units in the performance section.

CAPACITY BUILDING

We actively work with our suppliers to increase their ability to improve working conditions, and to assist workers to understand their rights as employees.

We strive to cooperate with others, such as NGOs or trade unions, where they have the best competence in a particular area. We also work with other brands wherever useful. The following is a summary of selected capacity-building activities in 2008.

ASIA

Supplier Development Programme (SDP)

The Supplier Development Programme aims to increase factory productivity. Ten production units in the Far East have enrolled on the programme. Our expected CSR benefit from the programme is for workers to gradually reach the legal limit of working hours with maintained salary levels. First evaluations at one supplier showed a decrease in overtime of 30% while raising productivity.

Representatives from the suppliers involved in this programme have conducted audits together with H&M auditors. The pilot joint audits have been successful and the factories have shown transparency and also understood their own shortcomings. The suppliers have agreed to report back to H&M on a number of different key performance indicators (KPIs) relating to productivity.

Film project to raise awareness of garment worker rights, Bangladesh

Raising awareness about workers' rights and responsibilities among workers and the management of our suppliers is an important part of our CSR work. From our long-term experience in Bangladesh we identified a need to raise awareness about rights and responsibilities among workers and managers, supervisors and line-chiefs.

To address this need we have produced a series of short films with an accompanying training manual aimed at this target group. To produce these materials we have collaborated with a local film production company and a number of local NGOs.

Five films have been produced covering some of the key issues identified by our Full Audit Programme, namely: maternity leave, leave and documentation, abuse and grievance, health and safety, and overtime. Grievance systems and worker-management communication are cross-cutting issues and are emphasised in all the films. The films cover day-to-day scenarios that show how workers and managers can and should deal with situations that might arise. Besides raising awareness, we also aim to encourage more suppliers to improve their own training programmes, for example by using these materials to help educate new employees.

In 2008, 39,121 workers and 3,808 managers, supervisors and line-chiefs from 19 production units in Bangladesh viewed the films and received the associated training and training manual. We have evaluated the outcomes of this first phase with our suppliers and the feedback has been very positive. Workers found the films interesting, understandable and have claimed an increase in awareness of the issues, as well as improved communication and cooperation within the factory. The main feedback we received from middle managers, supervisors and line-chiefs was that the films were inspiring and provided them with a better understanding of workers' situations. In 2009 this project will be rolled out at all of H&M's suppliers in Bangladesh. We also aim to share the material with other brands or organisations wherever useful.

OUR SUPPLY CHAIN

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Management Training, SEDF and GAP Inc., Bangladesh

In 2007 we identified and announced a need to improve human resources management at our suppliers in Bangladesh. We also see the need to further raise the awareness of workers' rights and other key requirements among management. We feel that better functioning HR management systems and better communication tools are necessary to establish sustainable and long-lasting improvements.

In 2008 we started a programme to address this need in cooperation with SEDF and GAP Inc. As a first step, five production units joined workshops and training sessions and a total of 16,976 workers and 784 middle managers attended during 2008. The outcome will be evaluated and analysed by H&M and GAP during the first half of 2009, but initial feedback has shown improved awareness and better communication between management and workers.

Awareness of workers' rights in Tirupur, India

H&M started working in cooperation with a local NGO, Sowkyam Foundation, in 2007 to improve and maintain the awareness of workers' rights among workers and managers in the Tirupur region of India. Our aim is to minimise and prevent Code of Conduct violations. An important aspect of this project is that factory workers and middle managers work together in workshops to discuss issues directly with the aim of reaching common solutions. Issues discussed include basic human rights, working hours, wages and benefits, equal opportunity, health and occupational safety and workers' committees.

The first training module started in November 2008 and ended in January 2009. During this period, 73 training sessions were held involving 3,717 attendees from eight production units in the area. The focus has been on workers' rights and communication tools, including issues such as wages and benefits, leave, social security or workers' committees. This first module showed a positive outcome and raised awareness on workers' rights and the need for good communication. Further workshops will be conducted in 2009.

Gokaldas Exports training pilot project, India

In 2007 we started a pilot project with one of our key Indian suppliers, Gokaldas Exports (GEX), together with the Fair Wear Foundation (FWF) and other brands to train the members of Gokaldas's workers' committees so that they are able to become more active and to improve worker-management communication.

This project ended in 2007 and we identified positive results, with awareness and communication improvements. Worker committee members were trained in their roles and responsibilities, middle management have opened committee meetings to other interested workers and in general the work environment has improved.

As a result of this positive feedback, we have developed the pilot into a programme we call 'Enabling Worker Committees', which is carried out with an external training provider. Four of our key suppliers in India are involved and by the end of 2008 three had completed the programme, with the final one due to complete the programme in early 2009. We intend to evaluate the outcome during 2009.

Chemical training project, Advit Foundation, India

During the past three years H&M's Code of Conduct team in New Delhi identified the need to educate our suppliers on chemical issues. During our FAP audits we found that there was little progress by suppliers on issues related to chemical handling, labelling, educating workers on chemical hazards and the correct and adequate use of personal protective equipment (PPE).

As a result, we developed a training pilot with the NGO Advit Foundation to cover these issues, as well as improving hazardous waste management and disposal of used chemical containers.

The training pilot was completed in August 2007 and has increased awareness levels among trained workers. In 2008 workers and managers from five suppliers received training. In addition to supervisors and managers, departments such as washing, cutting and stitching were represented. We are currently evaluating the feedback gathered from the attendees and will assess the impact on supplier practices through our audit findings during 2009.

OUR SUPPLY CHAIN

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Sandblasting in Bangladesh

During our regular audits with suppliers in Bangladesh, we have identified that the right personal protection equipment is not always used when working in sandblasting units, even though it is provided. Sandblasting can be used to treat denim products to give them a used, washed or distressed look.

Without the correct protection measures, sandblasting poses serious risks to those carrying out the process.

To stress the importance of always following H&M's sandblasting requirements, we held workshops at 17 production units in Bangladesh in 2008. In total, 466 workers and 81 middle managers attended the workshops. The training aims to empower workers and supervisors to educate other employees, leading to long-lasting capacity building. This training will be continued in 2009 until all production units performing sandblasting have received it. Right use of sandblasting equipment and correct protection measures are part of every FAP audit at all production units that perform sandblasting globally.

EMEA REGION

Code of Conduct training for Turkish suppliers and internal H&M employees – Turkey

As a key production country for H&M, Turkey is a market that requires high flexibility, speed and short production times. We have identified that our Turkish operations need to actively work on capacity building in order to avoid losing approved suppliers and subcontractors due to Code of Conduct breaches. In line with our aim to create a long-term business relationship with suppliers, the starting point is to educate both our suppliers and internal production teams on Code of Conduct requirements so that they can work towards ensuring changes have a lasting impact.

During 2008 we carried out several training courses. Internally, we conducted ten training sessions for 120 employees and managers covering our Code of Conduct requirements. Externally we continuously worked on various issues through training courses:

ADDITIONAL CODE OF CONDUCT AWARENESS: We conducted six sessions training 90 supplier representatives in our Code of Conduct requirements.

SANDBLASTING: We trained representatives from all (seven) new suppliers using sandblasting units in an additional training course on our requirements for health and safety measures related to sandblasting and chemical treatment of garments, in particular denim.

HOME WORKERS: Our Code of Conduct team conducted training with all suppliers making use of home work on our Code of Conduct requirements for home workers. The training provided suppliers with information to help them establish control systems to ensure home working complies with our Code of Conduct.

FAP 2.0: We held three training events for our key suppliers to explain the changes to our Full Audit Programme – FAP 2.0. In total, 66 people attended these training courses.



OUR ENVIRONMENT

MANAGING our business in a sustainable way includes minimising our impact on the environment. We aim to reduce the impact of our products during design, production, delivery and sales, as well as impacts from our workplace and business travel. Our new sustainability strategy strongly supports this aim.

As a global company we unquestionably have an impact on the environment. A clear understanding and programme of activities is essential to tackle this and to support our strategy to combine growth and sustainability.

KEY FOCUS AREAS

Key focus areas for 2008 included the reduction of our carbon dioxide emissions, promoting environmental responsibility in cotton growing and increasing our attention on water impacts throughout the life cycle of our products.

CHALLENGES

As with many parts of our business, one of the main challenges we face is that we need to influence our suppliers in order to improve the environmental performance of our products. We work with suppliers on environmental issues through our supplier Code of Conduct and related Full Audit Programme as well as other requirements such as restricting hazardous chemicals in our products. We also strive to contribute to improvements in raw material production, focusing on cotton farming and other stages in the production chain such as fabric production where we have less influence.

CEO WATER MANDATE

In June 2008 H&M signed the CEO Water Mandate, a voluntary initiative from the UN Global Compact. The CEO Water Mandate consists of a group of companies that has committed to work collectively on issues of sustainable water management. The mandate commits us to improve our own and our suppliers' water efficiency, improve wastewater quality and report transparently on progress.

Find out more about the CEO Water Mandate online at www.hm.com/csr



OUR ENVIRONMENT

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ENVIRONMENTAL MANAGEMENT

We will continue to manage environmental impacts in three areas:

- Supply chain
- Transportation of our goods
- In our stores, distribution centres and offices.

LONG-TERM GOALS

Our long-term environmental goals provide focus for all of our environmental activities wherever they take place in our business:

RESPECT FOR THE ENVIRONMENT IS AN INTEGRAL PART OF H&M'S AND OUR SUPPLY CHAIN'S BUSINESS PRACTICES. THROUGH RESPONSIBLE ACTING AND INNOVATIVE THINKING WE CONTRIBUTE TO SUSTAINABLE USE OF RAW MATERIALS AND ENERGY, POLLUTION PREVENTION AND A LOW-CARBON-EMITTING SOCIETY.

For more on our environmental goals and performance please visit the Performance section online.

Following the development of our sustainability strategy during 2008, responsibility for meeting environmental goals will be shared by each individual business unit. Within our operations the environmental management process is already well embedded so we are confident with our new, shared responsibility approach.

OUR IMPACTS IN THE SUPPLY CHAIN

A significant proportion of our impact on the environment certainly occurs in our supply chain through the activities of our suppliers.

Influencing them to make environmental improvements often goes in line with protecting the health and safety of those working in our suppliers' factories and ensuring our products' quality. The requirements we place on our suppliers regarding chemical handling and storage, wastewater treatment, waste management and management of certain production processes, such as sandblasting, are part of our audits wherever applicable. We also require our suppliers to comply with our chemical restrictions. Compliance with our requirements is monitored through our Full Audit Programme and chemical testing.

During 2008 we restructured our supplier auditing team and now have seven dedicated environment, health and safety (EHS) auditors conducting environmental audits in our supply chain as well as a global EHS coordinator.

In 2008 we identified the need to measure and monitor the carbon footprint of our supply chain. We are still at the early stages of tackling this challenge and have commissioned BSR to undertake a project to identify the key impact areas within the apparel sectors' supply chain. Read more in Our Carbon Footprint.

In addition to monitoring wastewater quality of production units using wet processes, such as dyeing and washing, we have started working more actively with our suppliers on water use, in particular establishing their water use per kilo of products.

This section gives an overview of the key impacts we address in our supply chain:

- Water and wastewater
- Chemical use in production processes
- Cotton, the most common material used in our products.

WATER AND WASTEWATER

During 2008 H&M signed the CEO Water Mandate, a voluntary initiative that requires us to improve and report both our own and our suppliers' water efficiency and the quality of discharged wastewater.

We have been working for some years with our suppliers who have wet processes such as dyeing and washing. In 2008, we broadened this work to focus on water consumption in addition to wastewater because we feel we can be instrumental in bringing about positive change on how much water suppliers use.

MEASURING WATER USE

Towards the end of 2008 we, for the first time, collected water use data from wet processing units operated or subcontracted by our suppliers. The figures have been compared to production to give a water efficiency figure of litres of water used per kilo of product.

OUR ENVIRONMENT

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During 2009 we will further analyse the data to get an understanding of what different levels of water efficiency look like for different products. Because there are many different types of wet processing for different fabrics and product types, our challenge is not only to find comparable measures but also to understand how to set water efficiency protocols and improvement plans for suppliers operating different production measures or in different locations.

Our aim is that once we have analysed suppliers' water efficiency and total water use we will compare locations of the factory with maps of water scarcity in order to prioritise factories that need to focus on more water-efficient production.

WATER USE EFFICIENCY INDEX FOR SUPPLIERS WITH WET PROCESSING (LITRES/KILO OF PRODUCT)

| | |
|-----------------------------|-----|
| Less than 100 l/kg products | 71% |
| 100-200 l/kg products | 16% |
| More than 200 l/kg products | 13% |

WASTEWATER

H&M requires suppliers who carry out wet processes to treat their wastewater to improve its quality and make it as safe as possible for discharge back into the environment. Since 2006 we have asked for discharged wastewater to meet specific quality levels developed by a working group within Business for Social Responsibility (BSR).

This requirement focuses on key water quality parameters that measure organic and chemical pollution levels and suspended solids within the wastewater. Relevant heavy metals are banned within our chemicals restriction list and are therefore not tested for in wastewater quality tests.

To date, we have monitored wastewater quality by asking suppliers to submit results from standard quality tests, which we then assess against the guideline BSR quality levels. Suppliers can either use laboratories that are recommended by H&M or use the same testing standards as those used by our recommended laboratories. Suppliers found to have values over the limit prescribed are requested to draft action plans.

Because a number of results from suppliers were returned with very low values for some or all of the quality parameters, we conducted a number of unannounced visits during 2008 to verify the authenticity of those values. These visits were part of unannounced follow-up visits relating to our Code of Conduct

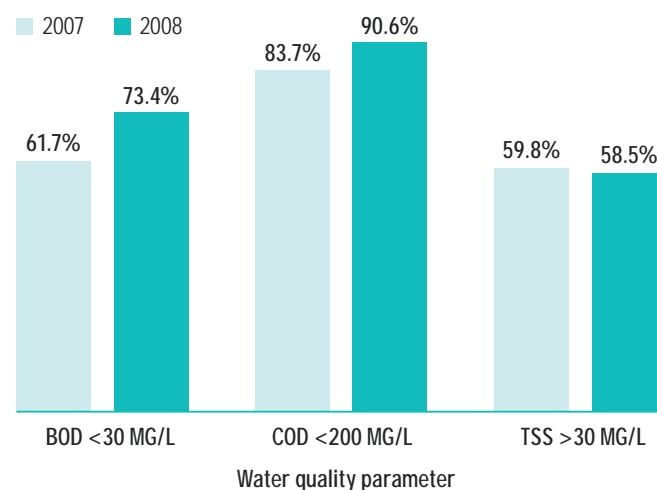
audit programme. Within our regular audit programme we also check if sludge resulting from wastewater treatment is handled according to legal requirements.

PROGRESS IN 2008

In 2008 the wastewater quality of 162 production units with wet processes was assessed against the BSR guidelines, compared to 146 in 2007. During 2008:

- 73.4% of suppliers reported biological oxygen demand (BOD) within the lowest threshold (less or equal to 30mg/l), an improvement from 61.7% in 2007
- 90.6% of suppliers reported chemical oxygen demand (COD) within the lowest threshold (less or equal to 200mg/l), an improvement from 83.7% in 2007
- 58.5% of suppliers reported total suspended solids (TSS) results within the lowest threshold (less or equal to 30mg/l), a slight reduction from 59.8% in 2007.

PERCENTAGE OF SUPPLIERS WITHIN THE LOWEST THRESHOLD FOR WATER QUALITY PARAMETERS (MG/L)



OUR ENVIRONMENT

CONTINUED



CHEMICALS

Producing clothes can require intensive use of chemicals. We work actively to limit the use of harmful chemicals in all our products – for the sake of the environment and the safety of employees within our supply chain, our own employees and our customers. Key stages we focus on include chemical use in cotton growing (for example through the use of organic cotton), in fabric dyeing and in garment treatment.

Certain harmful chemicals are banned in production processes and residues must not be present in finished garments, while others are allowed in limited quantities. All of these limit values and bans are gathered together in H&M's Chemical Restrictions list, a list of restrictions that all suppliers must sign up to. The list has been updated nine times since 1995, most recently in 2008, and now contains around 270 restricted substances. In 2008 more than 30,000 chemical tests were performed.

When deciding which chemicals to include in the restrictions list our decisions are based on the following:

- Legislation: We take into account all relevant legislation and we are in contact with the relevant authorities in various countries (e.g. the Swedish Chemicals Agency)
- Stakeholder materiality: We keep track of consumer tests, NGO activities and the media in order to remain informed of issues stakeholders consider material
- Chemical analysis:
 - We test different materials to see if the chemical poses a risk
 - We contact external laboratories to see how the chemical can be analysed
 - We contact chemical companies to see how common the chemical is in textile manufacture and if there are safer alternatives.

For more information about our approach to chemicals management in our products, including information on how we are meeting REACH legislation, please see the Our Products section on page 40.

CLEANER FABRIC PRODUCTION

Over the past three years, H&M has increasingly encouraged fabric mills with dyeing processes to contribute to cleaner fabric production. Some of our suppliers are vertically integrated, which means that they have dyeing operations in house.

With all direct suppliers our auditing programme starts with our Code of Conduct. We normally do not have a direct relationship with the mills that supply our suppliers with fabric so our approach relies on fabric mills getting involved on a voluntary basis.

Within our Cleaner Production Programme, H&M auditors visit fabric mills to assess the potential for improvement and to demonstrate positive environmental actions that can be taken. Fabric mills are selected for the programme according to two criteria:

- There is a significant business relationship between the fabric mills and H&M's suppliers
- There is scope for improvement at the mill.

It is voluntary for the mills to implement measures and H&M offers practical tools for them to use. The programme consists of around 40 easy-to-implement environmental measures so that effects can be seen quickly and the mills are motivated to make changes. Many are directly linked to cost savings and profitability improvements for the mill, making clear the environmental and financial gains.

PROGRESS 2008

In 2008 we held a workshop in Shanghai for fabric mills looking to reduce resource use in production. The business benefits of environmental improvements, particularly financial savings, were outlined to the attendees to help them understand the double benefit of investing in environmental improvements. Ten of the attending factories are now welcome to join the Cleaner Production Programme with a service provider specialised in cleaner production.

OUR ENVIRONMENT

CONTINUED



COTTON

Cotton is the most common fibre used by H&M and we actively contribute to reducing the environmental impact of cotton growing. Our strategy is made up of three parts:

- We seek to improve conventional cotton growing by collaborating with others
- We try to promote organic cotton growing by contributing to increased demand
- We aim to source cotton from farmers in transition from conventional to organic cotton.

CONVENTIONAL COTTON

The vast majority of cotton used by H&M is conventional cotton, and cotton supply faces some serious challenges and has many associated impacts. From a growing perspective, climate change, water scarcity and rising prices for inputs such as fertilisers will influence future cotton supply.

From an environmental perspective, cotton is a high-impact crop. According to WWF research cotton needs an average of 8,500 litres of water to grow one kilo of cotton lint, equivalent to one pair of jeans. From a social point of view, improvements for cotton growers are also needed.

At H&M we want to play our part in helping to address these challenges and to improve the sustainability of our most important raw material. We work with the Better Cotton Initiative (BCI), an initiative involving leading retailers and WWF. The BCI is a long-term initiative that aims to promote the use of improved farm practices where more cotton can be grown while reducing water and chemical use. H&M is a member of the BCI steering committee.

IMPLEMENTATION

The BCI is not a labelling scheme, nor will it provide Fairtrade or organic cotton – it aims to make all cotton more sustainable. During the 2009/10 growing season BCI will start implementation in Pakistan, India, West and Central Africa and Brazil, with the aim of refining and finalising the 'Better Cotton' system which will be launched in the 2011 growing season.

ORGANIC COTTON

Our objective is to gradually use more organically grown cotton and we are happy to be able to respond to growing interest in organic cotton from our customers. In 2006 we used 30 tonnes of organic cotton and have increased this amount to 1,300 in 2007 and 3,000 tonnes in 2008. We have set a long-term target to increase organic cotton use by at least 50% every year until 2013, based on each previous year's target. This means that our target for 2009 has already been met at the end of 2008.

Since March 2007 our customers have been able to buy fashionable clothes from a collection for women, men, teenagers and children made from 100% organically grown cotton. We also sell blended organic cotton products that contain 50% organic and 50% conventional cotton.

All of our organic cotton is certified by Control Union, who require suppliers to verify that the cotton is organic with the correct documentation. All our organic cotton is grown in Turkey, India and China.

ORGANIC WOOL AND RECYCLED FIBRES

In autumn 2008 we started to use other innovative and sustainable materials, such as organic wool, recycled wool and recycled polyester, on a small scale. This is a first step in testing possibilities using these new materials and an investment in potential innovative future opportunities.

Organic wool comes from sheep that are raised on organic pastures and are given organic feed. In addition to this the sheep themselves are not treated with insecticides.

Recycled polyester comes from recycled PET (plastic) bottles or textile remnants. Wool has been recycled from textile remnants. In spring 2009 recycled cotton will also be used in some garments.

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TRANSITIONAL COTTON

By creating demand for more organic cotton we can help create an incentive for more growers to shift to organic cultivation. However, the transition from conventional cotton farming to organic takes three years and this presents challenges. Although the land is not considered organic for the transition period, organic standards apply immediately. This can mean lower crop yields during the changeover, and farmers cannot yet charge an organic premium for their cotton. To support farmers we have decided to begin using cotton grown during this changeover phase, known as transitional cotton.

For 2008 we set a target to use 50 tonnes of transitional cotton, which we did not achieve due to limited availability when we placed orders. For 2009 our transitional cotton target is 250 tonnes.

TRANSPORTING GOODS

Transport of our goods accounts for 55% of the carbon dioxide emissions generated by our activities.

The size and geographical spread of our business requires numerous means of transport in various parts of the world. As our business grows, our transportation needs will also increase. The challenge for H&M is to meet our transportation needs with the smallest possible use of natural resources and as low emissions as possible.

Achieving transport with less impact on the environment at H&M entails working with environmentally sound transport companies and switching to rail and/or sea transport solutions where possible. Optimising transport for increased efficiency with reduced fuel consumption, increased use of renewable fuels and cleaner energy solutions can also lead to lower costs for the company.

PROGRESS IN 2008

We focus on using transport solutions that include rail and sea transports and try to avoid air and truck transport wherever possible. For example, we increased the share of train transportation from Turkey to Germany, Austria and the Netherlands from 5% to 50% during 2008.

Carbon dioxide emissions caused by air transport decreased by 16% on a like-for-like store basis and by 5% overall in 2008.

PARTNERSHIP PROJECTS

We recognise that addressing transport issues can best be achieved by collaborating with others, for example to develop common requirements for transport providers. It will also lead to improved environmental performance and cost saving.

Road transport

All of H&M's road transport providers have to meet certain environmental criteria and we monitor this on an annual basis. You can find our current requirements online at www.hm.com/csr. In 2008 we reviewed our approach and decided on collaborating with some members of the European Retail Round Table (ERRT, www.errt.org). Together we started to develop a performance matrix tool for road transport providers. The initiative is underway, and we plan to finalise the tools during 2009. Although not directly developed as part of the ERRT workplan, it will be available from and promoted by the ERRT during 2009.

Biodiesel

We are part of a collaboration with, among others, IKEA, Volvo Logistics and Preem, which strives to increase the use of biodiesel in haulage. The project aims to establish a network of biodiesel refilling stations in Sweden. It was developed in 2008 and will be implemented from spring 2009. We see our support for biodiesel as a first step in encouraging our transport providers to use more sustainable fuel sources. All the grain used for producing the fuel is sourced from Europe.

Clean Shipping Project

We also aim to develop a transport questionnaire for shipping providers in a collaborative approach with the Clean Shipping Project.

The Clean Shipping Project is a project aiming to improve the environmental performance of the shipping industry. Companies that are cargo owners or buy shipping services sign up to be members of the Clean Shipping Network. The network has signed a letter of intent to start to place environmental demands on shipping providers and to begin to use the Clean Shipping Index when buying shipping services.

The Clean Shipping Index is an environmental performance index made up of 20 environmental aspects of importance for shipping. It needs to be filled in by shipping providers for individual vessels and helps to establish an environmental

OUR ENVIRONMENT

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grade for ships that buyers can then use when buying shipping services. The index covers the following categories:

- Chemicals
- Water, fuel and waste control
- CO₂
- NO_x
- SO_x and PM (particulate matter)

More details can be found at www.cleanshippingproject.se

During 2008 H&M was also actively involved in the BSR working group Clean Cargo, which aims for similar objectives. To concentrate our efforts in this area we decided that in 2009 we will focus on the Clean Shipping Project.

We are confident that these joint initiatives will enable us to develop more robust environmental criteria for both road and sea transport providers, and ultimately lead to improved performance.

OUR STORES AND OPERATIONS

In-store energy use

The energy used in our stores, offices and distribution centres accounts for 37% of our total carbon footprint.

Waste

Solid waste is a significant issue in our stores and at our distribution centres. Stores are provided with guidance on how to handle waste including hazardous materials (e.g. fluorescent tube lights, batteries, electronic equipment, glues and other chemicals). We have environmental guidelines on how to handle waste and minimise the energy use in our stores. During 2009 we intend to update these guidelines.

Sales countries handle solid waste in a variety of ways, according to the facilities available to the store within their country of operation. Some stores use the waste-handling facilities of the shopping centre or landlord, others have separate waste-handling contracts or return waste to H&M's distribution centres. This provides a challenge for data gathering and we do not have consistent data from around H&M.

Hangers

In 2008 76% of the hangers we purchased were recycled. Most of the remaining hangers are reused in store.

Reducing transport labelling

In 2008 we started to change our markings on the side of delivery boxes to reduce paper use and waste. We are changing the size of paper used for packaging labels to A5 from A4 and only sticking labels on one side of transport boxes rather than three. Initial calculations suggest this will reduce paper use for labelling packages by approximately 80-85%.

Mail order paper and packaging

We provide mail order and internet shopping in Sweden, Norway, Finland, Denmark, the Netherlands, Germany and Austria. In 2008 all paper used in our mail order catalogues was manufactured by Chain of Custody certified mills and the majority of the fibre originated from certified forests. The paper also carries the European Union Eco Label, better known as the EU Flower, which guarantees the environmental credentials of the paper. All printers used for catalogue printing are certified to the ISO14001 environmental management system. And all of our mail order packaging boxes are made of cardboard with at least 60% recycled content.

Plastic consumer bags

Over the past two years we have conducted a significant life cycle analysis on plastic bags. The study compared virgin and recycled polyethylene (PE) plastic, paper, starch-based plastic, Oxi-bio plastic and green PE, which is made from wood cellulose rather than oil.

From a life cycle perspective, the study has shown that PE plastic is one of the materials for bags with the least impact on the environment, especially when made from recycled PE. This goes against the common perception that plastic has a high environmental impact, but compared to paper, PE requires half the energy and less water to produce. The study showed that:

- PE bags need less energy in production than many other options
- They use less space during transport, particularly compared to paper bags
- PE bags are durable and can be reused
- PE bags can be easily recycled

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- 85% of PE's embodied energy can be extracted when incinerated
- When incinerated, only water and carbon dioxide are produced
- In the longer term, 'green PE', which is made from wood cellulose rather than being oil based, will be a very good alternative since it has the same characteristics as traditional PE but comes from a renewable resource.

As a result of our consumer bag research, we will continue to use PE bags in our stores (in some markets paper bags are also used). However, we are moving towards using only recycled PE.

In-store communication materials

From autumn 2009 we are changing our standard poster size and using poster frames that will allow us to print on paper instead of board, resulting in a reduction of this material's use and waste of around 50%. Also in 2009 we will start to use sales communications material that can be reused for more than one sales campaign.

Shop fittings

Producing shop fittings can have environmental impacts. We have had standard requirements for sustainable shop fittings for several years. This states the materials that are acceptable and those that are not. The requirements are distributed to suppliers who refurbish or build our stores. During 2008 we updated these requirements.

We are currently also working on revising our Code of Conduct for our suppliers. The revision aims to extend the requirements from applying only to our production partners to applying to other suppliers such as our shop fittings contractors. We plan to roll-out this revision during 2009.

OUR CARBON FOOTPRINT

Since 2005 we have set a clear goal that commits us to reduce our carbon footprint by 10% by 2009 compared to a 2004 baseline year. Our approach to climate change aims to reduce the impact throughout the life cycle of our products, focusing on production in our supply chain, transport, and our stores, distribution centres and offices.

H&M'S APPROACH TO CLIMATE CHANGE

To tackle the goal of reducing our carbon footprint and to commit ourselves further to a long-term approach on reducing our carbon footprint we established several activities and long-term ambitions in 2007 (please see our 2007 CSR Report).

Some of these activities and ambitions have been set up as targets that have been met during 2008 or are to be implemented during 2009 and 2010. Some other objectives will require more time and in-depth planning. Others define general procedures to which we are committed. You can read about related progress throughout this section.

IMPACTS IN THE PRODUCTION PROCESS

One of our key challenges is to identify those parts of the production process that have the greatest impact on the climate.

In 2008 we began to look for a method for measuring the carbon footprint of the manufacturing process of our products. A broad, general view of carbon emissions in the life cycle of our products will inform overall priority setting for initiatives related to supply chain and product stewardship. We think that a joint approach to developing this method is best.

During 2009 we plan to work on an initiative together with BSR (Business for Social Responsibility, www.bsr.org) to investigate carbon emissions across the whole life cycle for apparel. The initiative takes a research-based review and analysis approach to examining current understanding and best practice. The research will look at expert opinions and publicly-available sources such as articles and reports.

The initiative aims to deliver on the two-fold objectives of:

1. Developing a general overview of high-carbon emissions hotspots (a 'carbon heat-map') in our supply chain to support overall priority-setting
2. Promoting the sharing of resources among our peers for deeper analysis and, potentially, further collaborative action.

We have set ourselves the target of developing this method during 2009. We aim to initiate supply chain carbon-footprint monitoring in 2010.

OUR ENVIRONMENT

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TRANSPORT AND TRAVEL

In 2008 we took part in a number of initiatives to reduce the impact of transporting our products, please see the Transporting Goods section of this report on page 32 for more details. Travel amounted to 8% of our carbon footprint in 2008.

Since 2007 we have been offering audio and web conferencing solutions. These have been broadly promoted through our intranet travel book tool and various meetings during 2008. As a result, the use of these systems increased by 51% in 2008 compared to the previous year. We have also assessed the use of video conferences, but came to the conclusion that, for now, audio and web conferences are the most cost-efficient solutions.

During 2008 we also revised our travel policy to include more stringent environmental considerations. The revised policy will be implemented and communicated during 2009. It requires all employees at H&M travelling for business purposes to ensure that:

1. Each trip is well justified and cannot be replaced by, for instance, a phone- or web-conference
2. When choosing the place of a meeting, the distance travelled by all attendees and the accessibility by public transport is considered
3. Appropriate means of transport are selected:
 - Trains should be used for all journeys of less than 600km if sensible
 - Public transportation should be used rather than taxis when this is available, safe and time permitting
 - Cars should always be shared by colleagues wherever possible.

Each manager is responsible for ensuring that these requirements are met in his or her department.

SALES

In accordance with the Retail Declaration on Energy Efficiency and Renewable Energy, within the framework of the European Retail Round Table (ERRT), H&M commits to:

- Reduce energy consumption per square metre of commercial premises by a minimum of 20% by 2020 compared to base year 2007 reference levels
- Work towards exceeding the European Commission's target of sourcing 20% renewable energy by 2020.

We are not yet able to publish data about the efforts we have undertaken so far in this area. However, during 2008 we did undertake several initiatives to reduce the energy use in our stores and other sales operations. For more information please see the section on energy use in our stores, offices and distribution centres on page 35.

We also aim to make it easier for customers to save energy when using the products they have bought from us. On the customer service pages of our [corporate website](#) we recommend lowering washing temperatures to save energy and provide further information on how our customers can handle our garments in order to reduce the impact on the environment.

CARBON DIOXIDE EMISSIONS

We monitor and measure energy use and carbon dioxide (CO₂) emissions across our business. Included in our corporate carbon inventory are the emissions from energy use in our stores, distribution centres and offices, and those caused by transporting H&M goods as well as our business travel and Company-owned cars.

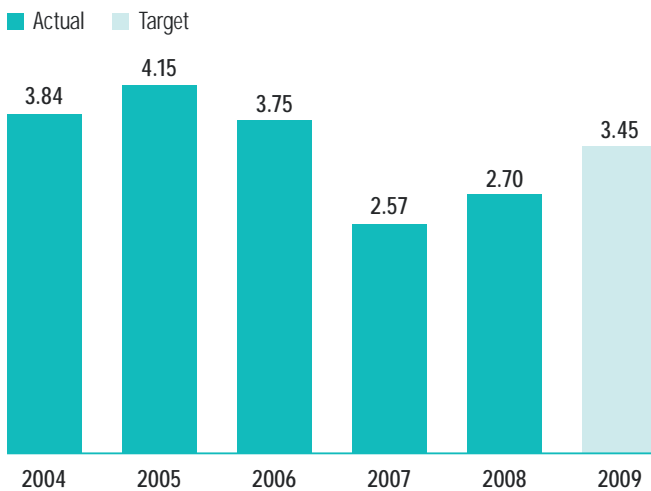
Our target is to reduce CO₂ emissions between 2005 and 2009 by 10% relative to sales, using 2004 as our baseline year. Between 2004 and 2005 our emissions rose but we have made continuous improvements to reduce them and since 2006 have seen figures below the 2004 baseline. Accordingly, we are a good way on to meet and exceed our target set for the end of 2009.



OUR ENVIRONMENT

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CO₂ EMISSIONS
(TONNES PER MILLION SEK TURNOVER INCLUDING VAT)



As shown in the chart in 2008 we emitted 2.70 tonnes of CO₂ per million SEK turnover. This means an increase of 5% from 2.57 tonnes of CO₂ per million SEK turnover in 2007. The total actual carbon dioxide emissions for 2008 were 280,634 tonnes, an increase of 18.4% compared to 2007. Year-on-year our total energy consumption rose by 10.7% throughout the entire company, while our turnover increased by 13%.

Part of the increase in emissions in 2008 is the result of changed rules when reporting CO₂ emissions from renewable electricity purchased in the UK. Previously, UK electricity customers were able to buy renewable energy and use this as a 'zero-carbon' in CO₂ calculations. This is how H&M treated renewable electricity purchased in the UK in previous years' CO₂ calculations. The UK's voluntary reporting rules for CO₂ emissions have now changed because renewable electricity is already included within the carbon intensity of the UK's standard grid electricity, which includes all sources of electricity generation.

H&M have applied these new rules for calculating CO₂ emissions for our 2008 emissions and this has played a part in emissions from electricity consumption increasing by 60% compared to 2007. This source of emissions now stands for 34% of all emissions (2007: 25%).

Significant areas of the business where reductions were achieved were in air transport (total and relative to sales) and business travel (relative to sales).

Find more details about our CO₂ emissions in the performance section online.

ENERGY USE IN STORES, OFFICES AND DISTRIBUTION CENTRES

When stores are designed we have targets for the energy efficiency of our lighting. Depending on the design and concept of the store, we target either 30 or 40 watts per square metre.

In a Berlin store trial, we managed to dim spotlights and downlights without compromising the effect of the lighting or the look of the products. During 2009 we will implement default dimming levels for lighting in all new stores, resulting in immediate energy savings. Our goal is to dim spotlights and downlights in new stores by 13% in 2009.

During 2008 we implemented restrictions on the maximum lighting level installed in non-public parts of our stores. We also provided clear information on how to light our stores at different times of the day, according to opening hours.

In 2008 we also started to install remote access energy meters in all new stores so that we can better monitor and manage energy use. Our experience from several countries shows that regular 24-hour monitoring of energy use can help highlight issues that can be corrected. Examples include heating and air conditioning equipment or lighting that runs when not needed either as a result of control failures or incorrect turn-off procedures.

In October 2008 we opened our largest distribution centre yet in Hamburg, Germany. When planning the facility, sustainable thinking was taken into account. For example, the roof has 5,300 square metres of solar panels. The H&M-owned installation contributes renewable energy capacity to the grid. Estimated yearly electricity production from the installation is 480,000 kWh, which makes carbon dioxide reductions of up to 480 tonnes possible. The solar power plant is the largest of its kind in the Hamburg region.



OUR PRODUCTS

OUR business concept is to offer our customers fashion and quality at the best price. To H&M quality includes meeting or exceeding our customers' expectations of our products and of H&M as a company.

Our customers expect our products to be practical, durable, well made, well fitting, functional, safe and free from harmful chemicals – so do we. To fulfil this we are continuously developing our methods and processes to improve the quality and design of our products. We have a strict quality assurance process in place that starts in the early stages of the product life cycle. This includes the design, fabrics and manufacturing of the product. Find out more about our approach to quality assurance on page 38.

One of our challenges is to apply our high-quality standards to new designs and products as well as meeting regulations when entering new markets. To achieve this, we have one set of global product quality standards. These apply wherever we operate and meet or exceed the strictest regulations in any of the countries where our products are being sold. Find out more about our child safety standards on page 39 or our restrictions on the use of chemicals on page 40.

H&M must also be responsive to our customers' demands. We see a growing interest and awareness of environmental and social issues among our customers. They question where their products come from, how they are made and, increasingly, what they are made of. Find out how we are responding to this interest on page 41 and 31. Our efforts to reduce our overall environmental impact from page 27 and to improve workplace conditions in our supply chain are covered from page 14.

Each week we come into contact with millions of people through our stores. Our stores are our most important channel of communication. But many people also see our advertising and of course we want it to be regarded positively by our customers and the communities around us. Find out about our approach to responsible advertising on page 42.

This also means that we are able to connect with our customers to raise awareness of issues of importance and can really make a positive difference. Find out about our Fashion Against AIDS campaign on page 43.

PRODUCT RESPONSIBILITY

Nobody should be harmed when our products are being made or used.

We aim to ensure that customers are safe and also satisfied with our products. Our focus areas are:

- Ensuring and improving the quality of our products
- Ensuring and improving their safety
- Restricting the use of harmful chemicals in products.



OUR PRODUCTS

CONTINUED

In 2008 there were over 300 people working directly on these issues at both our Head Office and in our production offices throughout the world. During 2008 we updated our product policy, which guides everyone within the business.

H&M'S PRODUCT POLICY

- H&M does not sell genuine fur.
- H&M sells leather only from cows, buffalo, sheep, goats and pigs raised for meat production.
- H&M does not buy leather from India due to the occurrence of cruel animal transportation there.
- H&M does not buy silk from India due to poor working conditions in the Indian silk industry.
- H&M does not accept mulesing, a procedure performed on merino sheep in order to prevent fly-strike.
- H&M products do not contain material deriving from endangered species.
- Down and feathers are only accepted from the carcasses of birds raised for meat production. H&M also requires certification showing that the down and feathers have been properly washed and sterilised.
- For products manufactured from wood originating in countries with tropical rain forests, H&M requires a Forest Stewardship Council (FSC) certificate.
- H&M children's clothing should be comfortable and practical. H&M strives not to sell children's clothing that might be perceived as provocative.
- Prints on tops and other goods may not be offensive, racist, sexist, political or religious.
- All goods are labelled with their country of origin.

In this section you can read about how we work internally and with our suppliers to:

- Ensure our quality and safety standards are met (see page 38)
- Address child safety (see page 39)
- Restrict the use of harmful chemicals (see page 40)
- Deliver several other initiatives (see page 41).

QUALITY ASSURANCE

We have had our own lab teams at our production offices performing physical, chemical and safety tests for several years. All in all, H&M conducted around 360,000 quality tests in 2008. More than 30,000 of these tests were chemical tests, over 20,000 of which were conducted in external laboratories.

During 2008 we implemented a new work method and reorganised our lab teams with the aim of working more

proactively. These Quality Assurance teams have the task of identifying and solving problems at an early stage in the production cycle of our products.

Our Quality Assurance teams need to pay particular attention to ready-made garments. But we have recognised that we can also make a big difference earlier in the process, for example at the initial fabric stage. Our Quality Assurance teams check potential risks such as the use of chemicals, colourfastness and the durability of details such as zippers and buttons.

QUALITY ASSURANCE THROUGHOUT OUR PRODUCTS' LIFE CYCLE

Once they have been designed, our products go through the following stages in their life cycle:

- Raw materials selection
- Fabric manufacture
- Clothing manufacture
- Transportation
- Sale
- Use by customers.

WORKING CLOSELY WITH COLLEAGUES

Our standards and regulations help us to prevent quality issues from arising. However, we do recognise the importance of close cooperation between our Quality Assurance teams and Product Developers, Research and Development staff, Merchandiser teams at the production offices and suppliers. Working together we can identify potential risks and manage them appropriately.

WORKING WITH SUPPLIERS

H&M works very closely with our suppliers to ensure our products maintain our quality standards. We have lengthy tests and quality controls in place as part of our company's buying operations and quality assurance is carried out at all stages in the process, including:

- Pre-production meeting
- Initial inspection
- Inline inspection
- Final inspection.

OUR PRODUCTS

CONTINUED

SUPPORTING OUR CUSTOMERS IN PROTECTING THE ENVIRONMENT

When labelling our garments, we always state the highest possible wash temperature. However, the greatest share of a product's energy consumption is in the customer's washing at home. We feel it is important to encourage our customers to lower the temperature they use for washing clothes. Lowering the wash temperature to 40°C from 60°C reduces energy use by about half. That is why on the customer service pages of our [corporate website](#) we recommend lowering the temperature to save energy and also provide other tips on caring for clothes in the best way for the environment.

CHILD SAFETY

We are committed to ensuring that children are safe when wearing our products. We have a strong focus on child safety throughout all stages of production, starting at the design stage.

The highest standards

Our child safety standards meet or exceed the strictest regulations in place in any of the countries where our products are sold. We have created guidelines and training materials for our staff based on these standards.

Risk assessment

For each product intended for children, we conduct a risk assessment to check if the product might be a potential hazard when being used by a child. For example, we can minimise the risk of accidental trapping by allowing no drawstrings with loose ends around the neck or hood area and designing all hoods on outerwear to be detachable. We carry out quality and safety tests at every stage of the production process, including:

- Testing of all sewn-on buttons, press-studs, cords, decoration etc., to ensure their durability following normal washing and use
- Ensuring that no children's garments are treated with flame retardants, which could irritate children's sensitive skin
- Checking all garments before packing, for example by passing them through a needle detection machine.

Training our staff

We aim to train everyone working with children's wear about child safety requirements, whether they work in design, buying or production. Everyone working with children's wear should be trained to foresee potential risks with a product. We also provide training in this area to our suppliers.

Working in partnership

Child safety is an issue of common concern for the whole industry. Working together with our competitors, we can gain insights from each other about safety issues and the best ways to meet regulatory requirements. We value our collective involvement in European working committees where EU regulations are set. We believe this process of involving both regulators and industry representatives in these working committees results in better regulations.

Product recall

In December 2008 we decided to recall a baby cardigan due to significant fibre shedding. We had received two customer complaints, although fortunately no injuries had occurred. The complainants pointed out that when children sucked on the acrylic and wool cardigan, they pulled lots of the fibres into their mouths. In addition, fibres were getting stuck on pacifiers. Once we were made aware of the issue, we recalled the product.

We regret that the cardigan passed through our entire quality and safety testing and production process without this defect being detected. The material was new to children's wear and our testing had not identified this risk. We will not be using the material in children's garments again.

In the rare case of a product recall, we have in place established and robust routines and guidelines. Following these, we informed our customers immediately about the product recall and their entitlement to a full refund, placing signs in store windows and at the checkouts of those stores with children's sections. In some countries we placed advertisements in newspapers. We met the legal requirements of every country where the cardigan was sold.

The previous product recall was in October 2006 and concerned a detachable compass on a children's jacket.

OUR PRODUCTS

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RESTRICTING HAZARDOUS CHEMICALS

H&M restricts chemical substances that are environmentally hazardous or harmful. We administer this policy through the H&M Chemical Restrictions list and all of our suppliers commit to following it.

Our chemicals requirements are always based on the highest legal standard in any of our 33 sales countries and often go further than the law demands. They are based on information from authorities, non-governmental organisations (NGOs) and scientific reports. We updated the list in 2008 and it now contains around 270 **restricted substances**. This year we have implemented stricter restrictions concerning APEOs, phthalates and lead.

In 2008 H&M carried out more than 30,000 chemical tests, of which external laboratories did more than 20,000. When testing chemicals we follow a clear risk-assessment process based on our long experience with textiles and with our suppliers.

We actively educate, support and audit our suppliers to ensure that they fully understand and are able to fulfil these requirements, which are regularly updated. For example, we conducted workshops with our suppliers in Guangzhou and Shanghai, China, to enhance their awareness and understanding of environment, health and safety issues.

APEOs

APEOs, alkylphenolethoxylates, are a group of substances that can be found in products such as washing detergents. They can be harmful to the aquatic environment. There is no legal requirement to avoid APEOs in clothing but H&M has restricted this group of chemicals in our products since 1999. We have tightened our restrictions further and our suppliers now have to make sure that the washing detergents, as well as the other chemicals they use, are APEO-free.

PHTHALATES

Phthalates is a group of substances commonly used in plastic as softeners. Phthalates are common in the environment and some of them are harmful. H&M has restricted those phthalates known to be harmful since 1996. The scope of our chemical restrictions has become broader and today none of the

phthalates can be used in H&M products. This has led to the substitution of the phthalate DMP, dimethylphthalate, in plastic buttons used on H&M garments.

LEAD

We have enforced strict restrictions and test routines on the heavy metal lead, which can be found in items such as metal jewellery. Any chemical testing that we commission is conducted by an independent laboratory.

REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals)

REACH is the European chemical legislation, which came into force in 2007. It seeks to reduce exposure to harmful chemicals. It also requires that substances produced in or imported into the European Union are registered. H&M was an early supporter of the legislation. We were prepared for it and had made all the necessary pre-registrations for our cosmetics products. Clear common standards and more accessible information about certain chemicals have helped us improve communication with our suppliers in this area.

During October 2008 REACH introduced a list of substances that are known as Substances of Very High Concern (SVHC). SVHCs are chemicals with properties that can, for example, harm our reproductive system, alter our DNA or persist for long periods in the wider environment. When importing into the EU, companies need to notify the European Chemicals Agency, ECHA, if articles contain more than 0.1% SVHC and if the total amount of the substance imported exceeds 1 tonne per year. H&M does not import any products that require notification. H&M ensures that no products contain SVHCs above the 0.1% threshold through our Chemical Restrictions list and extensive testing. H&M also performs audits and educates suppliers on handling chemicals during production.

Companies must respond within 45 days to a request from a customer inside the EU checking if a product contains any SVHC above the 0.1% threshold. Therefore, we have developed guidelines and forms for all H&M stores in Europe. These will support our colleagues in handling information requests from customers. We are committed to providing our customers with the information they request within the 45 days.

OUR PRODUCTS

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WORKING TOGETHER

Working together with regulatory authorities and other brands is important for our efforts to ban harmful chemicals from our products. By collaborating, we can advance the global management of restricted substances. Along with other multinational retailers, H&M is an active member of the Apparel and Footwear International Restricted Substance List Management Working Group, AFIRM. AFIRM's mission is to reduce the use and impact of harmful substances in the apparel and footwear supply chain. This is achieved by organising seminars for suppliers so they can learn how to reduce the use of hazardous chemicals. This year a conference was held in New Delhi, which was attended by more than 400 visitors from processing houses, factories and dyeing houses. AFIRM has also published a toolkit in order to help suppliers in their chemical management.

OTHER INITIATIVES

As well as quality, child safety and chemicals, H&M also works on several other product-related initiatives that are a cause for concern to our customers. These include environmentally friendly materials, the Flower eco-label and mulesing.

SUSTAINABLE MATERIALS

As a fashion company, the look of our garments will always be a high priority for our customers. Alongside that fundamental requirement, more and more customers also want clothes that have a reduced impact on the environment. We have a long-term investment in organic cotton. Our goal is to increase the amount of organic cotton used in our garments by 50% each year. In 2008 we used 3,000 tonnes, compared to 1,300 tonnes in 2007. This means that we reached our goal for 2009 by the end of 2008.

In 2008 we also introduced garments made from organic wool and recycled materials, including wool recycled from production off-cuts, as well as polyester made from recycled PET bottles. In 2009 garments made from recycled cotton will be sold in our stores.

Read more about H&M's use of organic cotton and other sustainable materials in Our Environment on page 31.

FLOWER ECO-LABEL

H&M sells babywear bearing the EU's eco-label, the Flower. Use of the Flower on these products represents the restrictions we place on the use of harmful substances and how we aim to reduce water pollution throughout the products' manufacture.

The Flower-labelled garments have been well received by our customers. In 2008 we sold almost 1,400,000 pieces and met the related target. We plan to continue with the use of the eco-label. Our goal is to sell 1,700,000 Flower-labelled garments in 2009.

www.eco-label.com

MULESING

Mulesing is a surgical procedure performed on merino sheep, in order to prevent fly-strike. H&M does not agree with any mistreatment of animals. We therefore take a stance on mulesing and distance ourselves from the practice.

Since 2005, there has been an agreement between the National Retail Federation (NRF), of which H&M is a member, and the Australian wool industry (Australian Wool Innovation) to replace mulesing with more humane methods by 2010. H&M thinks that this phase-out is proceeding too slowly. We have taken the decision to no longer sell clothing made with merino wool from mulesed sheep. So in 2008 we concentrated our buying efforts on products that use mulesing-free merino wool. We thereby hope to contribute to a quicker phase-out of mulesing, in favour of more humane methods of preventing fly-strike.

CONSUMER COMMUNICATION

Communication is an essential part of any customer-facing business. Our success depends on how well we communicate our business concept of fashion and quality at the best price to our customers and the societies around us.

OUR PRODUCTS

CONTINUED

RESPONSIBLE ADVERTISING

Our approach in our advertising is to communicate our brand values, create interest in our current collections and drive customers to the stores. We want to show the diversity of our collections and brand as well as inspire our customers.

We are aware that our advertising and the way we communicate can have a big impact in our sales markets. We feel it is important to be perceived in a positive, diverse and inspiring way without offending anyone.

The most important medium for our advertising is the store. Other media include the internet, outdoor media such as posters, TV spots, ads in print media, catalogues and events. We follow the International Chamber of Commerce's basic rules for advertisements and we have our own advertising policy. The policy has been updated in 2008 and now additionally highlights that H&M distances itself from working with notably underweight models.

The policy covers:

- The purpose of our advertising
- How we seek to promote a variety of different looks and styles in our advertising
- How we select models and, as of December 2008, how we will not use underweight models.

Read our advertising policy on page 42.

SUPPORTING OUR CUSTOMERS IN PROTECTING THE ENVIRONMENT

When labelling our garments, we always state the highest possible wash temperature. However, the greatest share of a product's energy consumption is in the customer's washing at home. We feel it is important to encourage our customers to lower the temperature they use for washing clothes. Lowering the wash temperature to 40°C from 60°C reduces energy use by about half. That is why on the customer service pages of our [corporate site](#) we recommend lowering the temperature to save energy and also provide other tips on caring for clothes in the best way for the environment.

COMMUNICATING ABOUT ACTING RESPONSIBLY

We acknowledge that our stakeholders, both outside and within H&M, want to know how we behave as a responsible business. We cover CSR issues in all our internal communication tools such as the intranet, our employee publication Wallpaper as well as H&M magazine. This year our film capturing our progress in CSR was shown globally and was seen by more than 32,000 sales employees. This was followed up by a survey to test employee understanding of CSR issues as they relate to our business. A total of 2,349 staff from 24 countries responded. The results were broadly positive and the gaps in knowledge identified where additional communication and training may be required next year.

The film was also placed on our [corporate website](#) and between May and September was viewed more than 28,000 times. Further regularly updated information on our CSR work can be found on [www.hm.com/csr](#). Launched in early 2009, here you can also find a column providing insight from our CSR manager, Ingrid Schullström, on our day-to-day challenges and progress.

ADVERTISING POLICY

H&M communicates its business concept of 'fashion and quality at the best price' through the various advertising campaigns we produce each year throughout the world.

The campaigns are designed to be clear and simple and aim to inform our customers of what is new at H&M and to show who we are and what we stand for. All of the campaigns show the season's designs and the price of the clothes pictured.

H&M's advertising campaigns are produced centrally in Sweden by H&M's marketing department in cooperation with creative professionals located in the major fashion hubs of the world. The advertisements that we produce are largely identical in all of our markets, but the media strategy is adapted to local requirements and conditions.

H&M's marketing has a major impact and it is essential for us to convey a positive and healthy image. H&M's advertising images do not aim to communicate one specific ideal, but rather a range of lifestyles and attitudes. Each season we strive to feature models with different looks, styles, and cultural



OUR PRODUCTS CONTINUED

backgrounds to advertise our concepts for women, men, teenagers and children.

Models are chosen in collaboration between internationally recognised agencies and our representatives. The models depicted in our advertising must be healthy and wholesome, and they must maintain a lifestyle consistent with the high prestige and good reputation of H&M. The company deliberately distances itself from drug and alcohol abuse, and will not use models that are notably underweight.

H&M has special guidelines for the advertising of our children's concepts. The target audience is parents, not children, and we place advertisements in media that is not aimed directly at children. Children who take part in our campaigns must take part of their own free will. If children are cast in a photo shoot, there is always an H&M representative present to ensure the safety of the children and to maintain a professional environment.

CUSTOMERS' VIEWS

We promote our products through various campaigns, which are produced in Sweden. Our marketing is influential and therefore it is essential for us to convey a positive and healthy image to our customers. This is underlined by our advertising policy whereby we actively engage with our customers. In order to remain open and honest we carry out surveys in all of our markets, and we are happy to find that the vast majority of our customers appreciate our marketing.

FASHION AGAINST AIDS CAMPAIGN

In January 2008 we launched our Fashion Against AIDS campaign together with Designers Against AIDS and various international celebrities. This was our first-ever cause-related marketing campaign on this scale. It ran in all our major markets and on our website as well.

The idea of the campaign was to offer our customers stylish, celebrity-designed clothes while at the same time raising money and increasing awareness of HIV/AIDS. Musicians, artists and fashion designers involved in the campaign include Rihanna, Katharine Hamnett, Rufus Wainwright and Ziggy Marley.

The collection, designed by the artists and musicians, included vests, T-shirts, hooded jackets and a T-shirt dress, all made from organic cotton. Twenty-five percent of the sales price went to AIDS prevention work carried out by YouthAIDS and Designers Against AIDS.

The campaign ran for two weeks in store supported by window posters and displays. We also produced an advertising campaign using many of the musicians who designed the clothes. The advertisements were shown outdoors, on TV and online.

WHY THIS ISSUE?

The issue is in urgent need of attention – it affects everyone. It is an opportunity for us to make a difference.

We come into contact with millions of young people every week through our 1,700 stores in 33 countries. We know that young people are a major risk group with about half of all new infections among people in the 15-24 age range. They are also our target group and one we believe we can influence.

Read more about how the donations raised were used in our Community Investment section on page 53.



OUR COLLEAGUES

H&M's strong corporate culture, the H&M spirit, has developed for over 60 years, since the days of its founder, Erling Persson. The H&M spirit is based on a number of values that describe in simple terms how we want to work, including, among other things, the belief in people and teamwork.

Our business operates on the principle of respect for all individuals and this should be applied to everything we do. We provide our colleagues with the opportunity to grow and develop within H&M, providing training wherever possible. We want our employees to feel that H&M is a place where their personality is valued and they can expand their horizons.

Our newly developed sustainability strategy, which aims to share responsibility for sustainability among all H&M departments rather than within a single CSR department, fits well with our employee principles. Once the new strategy is rolled out in 2009 it will influence the work lives of an increasing number of our people and it is our aim that all of our employees will work towards the strategy of shared responsibility.

OUR APPROACH

Our colleagues are a major factor in our success, profitability and growth. By 30 November 2008 we employed 72,497 people (53,430 full time equivalent).

PEOPLE MAKE OUR BUSINESS

Being a company that strives to be responsible and at the forefront of sustainability enables us to attract and retain engaged employees who are able to support the growth of H&M. We have set ourselves a business target to increase our number of stores by 10-15% per year with continued high profitability. To meet this goal it is essential our colleagues develop and grow with the company and that we attract enough good quality talent to support our growth. In 2008 we increased our employee headcount by 6,401 full time equivalent employees and this growth in our workforce needs to be sustained. We are targeting a growth of 6,000-7,000 employees in 2009.

CAREER PATHWAYS

We do not have standardised career plans, but prefer to respond to individual needs and interests so that we are able to find a good fit between the individual and the position. Store experience can offer our employees a way into the other business units of the company. When we do recruit from outside H&M, it is common that employees receive in-store training.

OUR COLLEAGUES

CONTINUED



GLOBAL POLICIES, LOCAL IMPLEMENTATION

Our HR teams manage most employee issues at a local level in accordance with local employment regulations and standards. In 2008 we began developing global employee policies to create minimum standards that apply wherever we work. The aim is not to replace the local approach but to provide a baseline standard that exists even if a country of operation does not have specific legislated employment standards. In 2008 we developed a global discrimination and equality policy and a global diversity policy. These policies will be launched at H&M in 2009.

We are working on a globally applicable grievance procedure for employees during 2009 and will investigate options for collecting data because grievance issues, as with other employee issues, are dealt with locally and not reported centrally.

Key statistics on our workforce are detailed below:

FULL TIME AND PART TIME EMPLOYEES 2008

PART TIME EMPLOYEES 52.7%
FULL TIME EMPLOYEES 47.3%

EMPLOYEE CONTRACT TYPE 2008

PERMANENT CONTRACTS 82.1%
TEMPORARY CONTRACTS 17.9%

DATA AVAILABLE FOR THE TOTAL NUMBER OF 69,265 EMPLOYEES (= 96% OF TOTAL WORKFORCE BY 30 NOVEMBER 2008). NO DATA AVAILABLE FOR PRODUCTION OFFICES. NOT INCLUDING FRANCHISE OPERATIONS.

EMPLOYEE BREAKDOWN BY REGION AND JOB CATEGORY

EMPLOYEES PER JOB CATEGORY (%)

SALES ASSISTANT 69%
WAREHOUSE EMPLOYEE 7%
FLOOR MANAGER 6%
VISUAL MERCHANDISER 6%
STORE MANAGER 3%
COUNTRY OFFICE EMPLOYEES 3%
PRODUCTION OFFICES 2%
BUYING OFFICE 2%
HEAD OFFICE 1%
OTHER 1%

EMPLOYEES PER REGION (%)

EUROPE (EXCEPT SWEDEN): 76%
NORTH AMERICA: 12%
SWEDEN: 9%
PRODUCTION OFFICES: 2%
ASIA: 1%

DATA AVAILABLE FOR THE TOTAL NUMBER OF 70,303 EMPLOYEES (= 97% OF TOTAL WORKFORCE BY 30 NOVEMBER 2008). NOT INCLUDING FRANCHISE OPERATIONS.

RATIO OF SALARY BETWEEN WOMEN AND MEN

STORE MANAGERS: 0.938
VISUAL MERCHANDISER: 0.938
FLOOR MANAGERS: 0.968
SALES ASSISTANTS: 0.997
WAREHOUSE EMPLOYEES: 0.900
COUNTRY OFFICE EMPLOYEES: 0.769*
OTHERS: 0.958

DATA AVAILABLE FOR THE TOTAL NUMBER OF 66,625 EMPLOYEES (= 92% OF TOTAL AVERAGE WORKFORCE BY 30 NOVEMBER 2008). NO DATA AVAILABLE FOR JAPAN (305), PART TIME EMPLOYEES IN CHINA (44) AND PRODUCTION OFFICES. NOT INCLUDING FRANCHISE OPERATIONS. DATA IS NOT GATHERED FOR H&M HEAD OFFICE AND BUYING OFFICE DUE TO NON-COMPARABLE EMPLOYMENT CATEGORIES. THE RATIO IS CALCULATED AS A WEIGHTED RATIO DUE TO DIFFERENT CURRENCY RATES AND PAYMENT INTERVALS.

* THIS CATEGORY INCLUDES A LARGE NUMBER OF DIFFERENT TASKS, WHICH ARE HARD TO COMPARE, SUCH AS OUR SALES COUNTRY MANAGER AND CONTROLLERS, MERCHANDISERS, ADVERTISING, PR, ACCOUNTING, ADMINISTRATION ETC. THIS ESTIMATION IS SUPPORTED BY THE FACT THAT WE SEE THE BIGGEST DIFFERENCES IN OUR LARGEST MARKETS WITH A HUGE VARIETY OF DIFFERENT TASKS IN OUR COUNTRY OFFICES.

THIS MIGHT BE A REASON FOR AN UNEQUAL FIGURE IN THIS PARTICULAR CATEGORY. HOWEVER, WE WILL LOOK INTO THIS DURING 2009 TO VERIFY.

EQUALITY AND DIVERSITY

As a global fashion retailer, H&M makes high fashion collections accessible to everyone. Similarly, we aim to make working at H&M equally as accessible.

As part of our work in 2008 in establishing a set of common globally applicable policies, we developed a global discrimination and equality policy. We are committed to providing equal opportunities to all our employees and potential employees wherever we operate all over the world.

Our priority is to seek highly motivated, hardworking, outgoing team players who look for personal growth and possess an entrepreneurial spirit. We feel that a diverse team of employees who possess these attributes is essential to our success.

Our new policy, based on the ILO convention (C111 Discrimination), is set up to ensure we provide a level playing field for all our employees.

OUR COLLEAGUES

CONTINUED



OUR DISCRIMINATION AND EQUALITY POLICY STATES:

At H&M all employees are of equal value. Nobody shall be discriminated at recruitment, selection, employment, compensation, transfers, promotion, growth, development or training. For the purpose of this policy the term discrimination includes any distinction, exclusion or preference made on the basis of race, colour, sex, religion, political opinion, national extraction, social origin, sexual orientation or age.

All employees and customers of H&M are entitled to be treated with respect; therefore, discriminatory, biased, offensive or abusive treatment, harassment or retaliation by managers or employees is never tolerated.

Further basis for employment protection may be added due to national or local legislation.

[December 2008]

DIVERSITY POLICY

In addition to our global discrimination and equality policy we have also developed a global diversity policy.

All employees at H&M contribute to the Company's success. The diversity of the workforce in terms of, for example, age, gender and ethnicity is an asset to the company. We therefore strive for diversity at all job levels and at all H&M's work places.

[December 2008]

At H&M the majority of our colleagues are women and they are well represented in management positions. The percentages of women holding positions of responsibility are:

SHARE OF FEMALE EMPLOYEES PER EMPLOYMENT CATEGORY

BOARD OF DIRECTORS: 35%

GROUP MANAGEMENT LEVEL: 33%

SALES COUNTRY MANAGERS: 44%

PRODUCTION OFFICE MANAGERS: 45%

BUYING DIVISION HEADS: 57%

BUYING SECTION HEADS: 83%

AREA MANAGERS: 67%

STORE MANAGERS: 77%

TOTAL SHARE OF FEMALE EMPLOYEES IN MANAGEMENT POSITIONS: 76%

TOTAL SHARE OF FEMALE EMPLOYEES AMONG TOTAL WORKFORCE: 79%

NOT INCLUDING FRANCHISE OPERATIONS.

TRAINING AND DEVELOPMENT

H&M constantly works on developing the skills of our colleagues. We have a Head of Training and Staff Development responsible for a training team that delivers the majority of global trainings and initiatives across the business.

In some cases managers in stores carry out training and some specialist training is done by external organisations. Yearly performance reviews for all employees are a common practice. They help our employees develop themselves, which in turn helps the Company to develop.

INDUCTION TRAINING

An employee's training experience starts when joining H&M and undertaking our mandatory induction training. This training consists of different subjects, such as an introduction to H&M, garment handling and care, security, customer service, textiles and CSR. For induction training, we have identified three key ways of delivering training successfully: offsite in a classroom environment, in small groups in-store, and one-to-one in-store. There is no set pattern and the format of the training is dependent on the individual circumstances of the store or employees being trained.

E-TRAINING

In the UK, Spain and Sweden an e-training pilot started in 2008 to assess the success of this delivery method for parts of our induction training. The pilot is targeted at store staff with access to computers and more than 2,000 employees piloted the training last year. The training provides the flexibility for employees to complete four hours' training over a two-week period. One benefit of the system is that our training managers can assess user data to see how long different training tasks can take. This allows us to improve the usability of the system over time. The pilot will continue in 2009.

OUR COLLEAGUES

CONTINUED



ONGOING TRAINING AND DEVELOPMENT

Training and development continues throughout an H&M employee's career and is supported by an annual performance review that identifies possibilities for further progression and associated training and development needs.

Our training structure is based around mandatory and non-mandatory training that is relevant to all H&M operations globally. Also, there are several different national and local training courses that aim to meet employees, and country-specific needs.

In addition to the global induction training modules that every employee needs to complete, there are additional induction training modules for certain tasks, such as for store managers, floor managers and visual merchandisers. These trainings cover certain knowledge, such as what it means to be good retailers, staff development, garment presentation, controlling and others. Allied to these there are 11 non-mandatory global training modules, four of which are directed at store managers. Below these global training modules H&M offers around 50 different training courses on national level that are tailored to each country's specific needs.

Staff at our production offices have different training needs and our courses are structured to suit them. In 2008, leadership training was provided for managers within our buying offices by an external consultant. A few sales managers were also involved to identify whether this type of training would also be useful for them. This will also continue in 2009.

TRAINING DELIVERED IN 2008

The average number of training days per employee in 2008 was approximately ten days for new sales staff, one day for existing sales staff and five days for existing management positions.

GOALS FOR 2009

During 2009 we will continue to focus on ensuring that every new employee receives our induction training. At the same time we are working on improving the effectiveness of our trainings. We strive to make relevant training tools more accessible for the right target groups and will focus on managers, including floor and store managers.

To support this we are currently looking into standardising all globally mandatory training so that all employees, regardless of location, receive the same information. This process started in 2008 and will be completed in 2009.

LEARNING BY DOING

H&M encourages on-the-job learning and job rotation presents a good opportunity for our colleagues to develop. In-store job rotation may mean that a person's duties vary from customer service, the cash desk and fitting rooms, to display and follow-up of advertising and campaigns.

When H&M opens new stores in existing sales countries or in new markets, job rotation is a common practice. This can take the form of colleagues from established H&M countries supporting a new store for the period before opening. Also, individuals or groups of colleagues from new countries or stores receive training in an established market. In addition to providing support, knowledge transfer from established H&M stores to newly opening ones is an important element.

CSR TRAINING

CSR forms a significant part of training at H&M. It is included in all employees' induction training, including store staff. Whenever needed we also provide information on current CSR topics to our staff so that they are up-to-date and able to respond to customer enquiries.



OUR COLLEAGUES

CONTINUED

EMPLOYEE SURVEY

In terms of responding to customer queries, the importance of CSR training for all employees was underlined by our annual survey to assess employees' CSR knowledge. The 2008 survey, which was answered by 2,349 employees across 24 countries, showed that almost half our staff have received questions from customers on how our garments are produced and three out of ten have received questions about our environmental work.

The survey also showed that staff knowledge about our CSR programme had improved since the 2007 survey. For example, 90% (up from 73%) of staff correctly identified our Code of Conduct as requirements we set for production to safeguard those who manufacture our products and the environment.

In 2008, over 32,000 employees viewed our CSR film, which gives an insight into our CSR work in the supply chain. The film has also been viewed 28,683 times on our website at www.hm.com.

EMPLOYEE COMMUNICATION

In addition to formal training, we also regularly use employee communication channels such as the H&M intranet and our employee newsletter, Wallpaper, to provide information to our people on our approach to CSR issues. In 2008 we published a special CSR edition of Wallpaper, which focused solely on CSR in H&M.

Find out about our auditor training in our supply chain section on page 19.

LABOUR RELATIONS AND DIALOGUE

H&M's employees have the right to freedom of association and collective bargaining. Across our operations approximately 67.5% of H&M employees are covered by collective bargaining agreements.

We strive for good relations with all our employees and the employee associations and trade unions that represent them. Since 2006, our CSR Manager, Ingrid Schullström, has also been head of our employee relations department in addition to her responsibility as CSR Manager. In 2008 the department was extended and now consists of two full time employees as well as the managing position.

WORKING WITH EMPLOYEE REPRESENTATIVES

H&M's success and profitability in a competitive industry is dependent on flexibility. If a potential redundancy situation arises, we address this situation in a responsible manner and aim to communicate with unions as early as possible in the process. We have a global framework agreement with Union Network International (UNI) and have also carried out work with the European Works Council (EWC).

Employees are represented at Board level, with two of the 13 Board members being employee representatives and two employee representative deputies. Besides this there are different forms of representation in various countries, depending on local labour laws.

H&M AND UNION NETWORK INTERNATIONAL (UNI)

Our Global Framework Agreement with UNI declares that both parties regard the International Labour Organization's Declaration on Fundamental Principles and Rights at Work to be the cornerstone for our cooperation. Our main contact point for this agreement is the Swedish Commercial Workers union, Handels, which is a member of UNI.

H&M AND THE EUROPEAN WORKS COUNCIL (EWC)

H&M first signed an agreement with the EWC in 1997 and this was amended in 2007. H&M and UNI-Europa are signing parties to the agreement. Sweden, Germany, Norway, Finland, Denmark, Belgium, Austria and the Netherlands all have EWC representatives. Meetings are held with all representatives on an annual basis and with EWC's select committee twice a year.

OUR COLLEAGUES

CONTINUED

CODE OF ETHICS

An important part of our commitment to be a responsible business is the insistence on operating ethically at all times. H&M does not accept any form of bribery and we take exception to all types of corruption. H&M's company-wide anti-corruption policy, the Code of Ethics, has been in existence since 2003 and aims to tackle these issues.

The code substantiates our belief that business relations should be strictly professional, and that it is not allowed for business partners to provide any kind of gifts or other advantages to H&M employees. In the same way, H&M employees must not require or accept any personal advantages from any business partner. The H&M Code of Ethics applies to all business partners and all H&M employees that come into contact with business partners.

Due to the nature of our business and our relationships with suppliers we have had two versions of the code since 2005, one for suppliers and one for employees. They include a ban on offering, giving, soliciting and accepting advantages and a section on confidential information. The employee version also includes provisions regarding company records and accounts, entertainment, loans and gambling as well as conflicts of interest.

REVISED CODE LAUNCHED

In January 2008 we launched the third version of our Code of Ethics. This version was launched to further strengthen our belief that business relations should be strictly professional. The revisions included clarification of elements of the code to help avoid any misinterpretation of borderline cases.

In addition, tolerances were sharpened where necessary and this included a policy to no longer accept any kind of benefit. This zero-tolerance policy even extends to small gifts of low value.

WHISTLEBLOWING

There is a confidential whistleblowing procedure to report potential breaches of the code. A dedicated email address exists for suppliers to report concerns about possible breaches of the code. From 2009 we will be sharing this email address with all parts of our organisation. To maximise confidentiality, only the Global Security Manager personally can review these reports.

Breaches of the code are investigated and if a supplier has breached the code, then the business relationship may be terminated. In the case of employees, employment may also be terminated.

BREACHES OF THE CODE

On a global level in 2008 ten employee breaches of the Code of Ethics were identified that led to employee termination. We also terminated two supplier relationships as a result of corrupt practices that were in breach of the supplier Code of Ethics.

In 2009 we will implement a global system, which will make it easier for us to monitor all cases reported at a local level and their outcomes.

AWARENESS AND TRAINING

Suppliers and employees are all made aware of the code and given information to assist their understanding. All suppliers receive information on the code and sign the Code of Ethics compliance agreement before they can be accepted as suppliers to H&M.

All employees working in our production organisations, sales organisations and Head Office (those having a regular contact with external business partners) are informed of the Company's approach during the recruitment process. Before joining the Company they receive a short presentation on the code and sign a confirmation that they understand its contents. Additional workshops are available and can be conducted wherever useful.

Usually these workshops are held within the first six months after joining H&M.

The aim of the training is to build our employees' confidence in the code and to encourage them to be open about it with our suppliers and business partners. Feeling comfortable about the code means employees will find it easier to raise the subject of the code with them and discuss the importance of ethical business practices to H&M.

By 2008, around 98% of our employees from our production offices had received Code of Ethics training. During 2008 we conducted training for 82% of the employees in our Head Office, buying office and sales country offices. We focused on all those employees in regular contact with external business partners.

OUR COLLEAGUES

CONTINUED

INTERNAL RESPONSIBILITY

Our Code of Ethics is managed by different departments in different parts of the Company. In production and buying offices human resources are responsible, or the office manager if there is no specific human resources staff member. In the event of possible code breaches the case is referred to the security manager.

In our sales organisation local security departments are responsible for managing the code and investigating Code of Ethics issues.

IMPLEMENTING THE CODE MORE WIDELY IN 2008

Moving on from our focus of implementing the Code of Ethics in our production markets in 2007, we focused on implementation within all levels of the company in 2008. In addition to our sales countries this included central departments, such as IT, marketing, interior, store planning and construction. A major focus was also on implementing and communicating the updated version globally among all employees.

POLITICAL CONTRIBUTIONS AND LOBBYING

H&M does not provide direct financial contributions to individual politicians or political parties. H&M does, however, reserve the right by way of lobbying to attempt to influence political decisions that may have an impact on the Company's business.



OUR COMMUNITY INVESTMENTS

H&M has been involved in various philanthropic activities for many years on both a global and a local level. To us it is important to give back to the communities around us and contribute to positive and sustainable change, which is why we call this area community investments.

H&M's community investments aim to focus on issues that are important to our communities and that have a connection to H&M, such as water, employment and education of women and youth, and innovation of sustainable materials. That way we can work with issues where we genuinely have an opportunity to make a difference.

In 2008, our community investments amounted to almost SEK 32 million (about \$3.6 million).*

In this section you will find information about:

- Our approach to community investments
- Community partners
- Community projects
- Community support.

OUR APPROACH TO COMMUNITY INVESTMENTS

In 2008 H&M reviewed its community investments work and developed a new policy for its work in this area. The policy builds on our vision that all our community investments should be focused, efficient and sustainable and have a clear connection to our business, our stakeholders and society's needs.

Based on this vision we identified three areas where we will focus our community investments: employment and education among women and youth, water, and innovation of sustainable materials.

Our work in this area builds on three complementary pillars:

- Community partners on page 52 – our long-standing partnerships with UNICEF and WaterAid
- Community projects on page 52 – the projects that we run in our communities together with our community partners and by ourselves
- Community support on page 54 – the direct contributions that we make to communities and people in need.

Through those pillars, we aim to work holistically and meet the diverse needs of the communities around us.

OUR COMMUNITY INVESTMENTS

CONTINUED



Our community projects and cause-related marketing campaigns are mainly initiated and co-ordinated on a global level. However, several sales countries also engage in local initiatives such as collaborations with national UNICEF committees. Monetary donations are often directed to UNICEF whereas clothes donations usually go to selected local charity organisations.

The following pages provide an overview of our community investments in 2008.

COMMUNITY PARTNERS

Some of the challenges we face in the communities where we work are complex and not always something we can tackle on our own. This is why we have chosen to partner with selected organisations that can help us to address these issues and achieve results that we alone cannot.

Unicef

In 2004 H&M entered into a partnership with UNICEF, the United Nations Children's Fund (www.unicef.org). UNICEF is the world's largest provider of vaccines for developing countries, it supports child health and nutrition, good water and sanitation, quality basic education for all boys and girls, and the protection of children from violence, exploitation and AIDS. Our partnership with UNICEF has been a successful example of how we can cooperate with others to achieve positive results. Together with UNICEF, H&M currently runs an HIV/AIDS prevention project in Cambodia as well as projects in Uzbekistan and India that aim to strengthen children's situations in cotton-producing areas. In 2008 UNICEF received a total of around \$780,000 from H&M.

Wateraid

WaterAid (www.wateraid.org) is a British charity organisation that works to give the world's poorest people access to safe water, sanitation and hygiene education. H&M started to collaborate with WaterAid in 2002. Each year H&M designs an exclusive bikini range with a 10% contribution to WaterAid for each item sold. Since the start of the partnership, H&M has raised more than £1 million (about \$1.4 million) for WaterAid's water and sanitation projects, primarily in Bangladesh, where some of H&M's clothing is produced. In this way, H&M's support can have a direct impact on improving the lives of many people in the communities there.

COMMUNITY PROJECTS

Supporting projects in the communities where we work is a cornerstone for our community investments. It is through our projects that we can work practically to address important issues and contribute to positive and sustainable change.

Unicef in Cambodia

Since 2004 H&M has been supporting UNICEF's HIV/AIDS Prevention and Care programme in Cambodia, one of the countries where H&M's clothes are produced. The programme aims to reduce the transmission of HIV among young people and high-risk groups as well as reducing the impact of the epidemic on children and their families. The project includes activities such as health promotion sessions, a national HIV hotline and HIV testing services.

Some of the project activities are especially targeted at young women in the garment industry, which is one of the high-risk groups identified in the programme. H&M has used its access to the factories to help UNICEF reach young female garment workers. In this way H&M can also raise awareness among our suppliers that they have a role to play in ensuring the health of their workers.

Unicef in India

H&M makes a clear stand against all use of child labour and is – among other things – working closely with UNICEF to address this issue. For some time, H&M's cooperation with UNICEF has focused on the situation of children in the cotton-producing areas of India. In 2008, UNICEF completed a study on the social consequences of children in the cotton-growing industry in Tamil Nadu, India. H&M and UNICEF are currently developing a project based on the findings from the study, which will be initiated in 2009.

Unicef in Uzbekistan

In June 2008 H&M began a project with UNICEF in Uzbekistan to improve the situation of children there and help prevent child labour in the cotton industry. The project aims to raise public awareness of the effects of child labour and to develop national child protection strategies. In the first phase, which will run until summer 2009, H&M has contributed \$150,000 to this project.



OUR COMMUNITY INVESTMENTS

CONTINUED

Wateraid projects

In 2008 we donated £216,202 (about \$300,000) to WaterAid. H&M has now donated more than £1 million (about \$1.4 million) since the start of the partnership in 2002. H&M's donations mainly go to support water, sanitation and hygiene projects in Bangladesh, where some of our suppliers are based. In addition, part of the donations also go to water and sanitation-related projects in Madagascar and Tanzania.

Fashion Against AIDS projects

H&M and Designers Against AIDS joined forces in the battle against AIDS and launched a collection together with well-known designers, musicians and artists. The aim was to increase awareness about HIV/AIDS among youth and raise funds for HIV/AIDS projects. The collection generated a donation of SEK 15 million (approximately \$1.8 million), which was primarily directed towards YouthAIDS HIV/AIDS prevention projects in Haiti and Russia.

See more on the Fashion Against AIDS campaign in the Products section on page 43.

H&M training centre, Dhaka

Since 1999 H&M has run a training centre in Bangladesh where youths from 17 years of age, living in poverty, are educated to become sewing and knitting machine operators. Today, the training centre has run courses for more than 950 students and is known among H&M's suppliers and others in the garment sector in Bangladesh for educating skilled, well-trained sewing and knitting machine operators, for which there is a huge demand in Bangladesh.

Despite the demand, there is a noticeable lack of formalised training and education in this area. The H&M training centre is the only one of its kind in Bangladesh. We aim to encourage similar initiatives by openly sharing the concept and our experiences with others such as NGOs and other organisations and of course our suppliers. In 2008 we also produced a brochure, informing our suppliers about the training centre and its efforts.

Training lasts four months and is conducted by experienced instructors. In addition to the technical training, the students are also taught about life skills and workers' rights through activities such as role plays and lectures. At the end of the four-month period students are guaranteed a job at selected H&M suppliers.

Apart from funding, H&M also supports the training centre by providing internal training for the instructors in order to ensure the trainees gain the required technical skills. In 2008 the instructors underwent training by the technical team at H&M's production office in Dhaka.

Female retail training programme, Saudi Arabia

In 2008 we opened our first store in Saudi Arabia together with our franchise partner Alshaya. We also collaborated to set up a retail training programme for women in Saudi Arabia. The programme will start in 2009 and aims to provide women with the necessary knowledge and experience to work in a retail store. Students who successfully complete the course will be offered a job, either at H&M or at another of Alshaya's retail stores in Saudi Arabia. By establishing this programme we want to promote female employment in Saudi Arabia and increase the opportunities for women to work in the Saudi retail sector.

LOCAL PROJECTS

At H&M, we want to build a strong relationship with our customers and the communities where we do business. H&M's stores and sales staff play an important role in these initiatives. Therefore, we also engage in community investments activities on a local level. Below are examples of some of the activities carried out during 2008. All in all, these local projects and activities have a value of around 4 million SEK (about \$450,000).

UNICEF

In addition to our global partnership with UNICEF, H&M also collaborates with UNICEF at a local level. As a result, several sales countries have collaborated with national UNICEF committees and engaged in national campaigns to support UNICEF's work. A few examples follow.

OUR COMMUNITY INVESTMENTS

CONTINUED



Norway

In 2008 we began a collaboration with UNICEF in Norway on a range of marketing activities to raise money for the project 'Sammen for barnebøker'. The project was aimed at promoting children's interest in reading in Madagascar and to enlighten children about their cultural heritage and the island's history. The activities included the sale of a specially designed scarf, where 25 NOK (about \$3.60) from every scarf sold was donated directly to the project. During the Christmas period, our customers were also given the opportunity to donate money at the tills by 'rounding up' the sum of their purchases or donating an amount regardless of making any purchases. In addition, we sold a virtual book, which was given as a Christmas gift to all staff in Norway, with all production costs met by H&M.

The total sum raised by our joint activities in 2008 was 513,000 NOK (approximately \$75,000).

Sweden

H&M Sweden has worked with UNICEF since 2004, supporting its important work for the world's children. In connection with UNICEF's spring campaign and their Comedy Gala 2008, H&M Sweden sold a specially designed scarf, where 25% of the profit was donated directly to UNICEF. In November, H&M and UNICEF initiated the Round Up campaign, which gave the customers the possibility to donate money by 'rounding up' the sum of their purchases. All in all, the activities generated a donation to UNICEF of more than 370,000 SEK (about \$40,000).

Breast Cancer awareness

Breast cancer is an important topic in many of the countries where we operate. Therefore, several sales countries have carried out activities in cooperation with national organisations in order to raise breast cancer awareness among H&M staff and customers.

UNITED STATES

In the US, H&M worked with the American Cancer Society for their Making Strides Against Breast Cancer walk and fundraising campaign. The campaign aimed to raise funds for breast cancer research and to promote education and awareness programmes. Our staff, together with H&M US, donated a total of \$188,000 to the campaign.

UNITED KINGDOM

In 2008, in the UK, H&M raised £3,000 (\$4,300) through the sale of pin badges in stores and the placement of donation boxes. In addition to raising money, the activities also helped to increase awareness of breast cancer among customers and employees.

COMMUNITY SUPPORT

Another important part of our community investments is to support our communities in times of crisis. In the event of major catastrophes, H&M decides on a case-by-case basis about making direct contributions to emergency relief efforts and humanitarian aid. In addition, H&M regularly donates clothes to victims of war and natural disasters, and to other people in need.

Disaster relief

After the fatal earthquake in the Sichuan region in China in spring 2008, H&M decided to contribute to the support of the victims with a \$100,000 donation to our partner UNICEF. Our local organisation in Hong Kong added another 120,000 SEK (approximately \$13,700), which was also donated to UNICEF's earthquake relief and recovery efforts.

Donations of garments

Clothes that do not comply with H&M's quality requirements are not passed on to our stores. Instead, we donate the clothes to aid organisations in the countries where we operate. However, we never give away clothes that do not meet our safety requirements and chemicals restrictions. During 2008, H&M donated around 400,000 garments to local aid organisations. Below are some examples of sales countries where we have made clothes donations.

Sweden – helping hands

H&M has an agreement with Helping Hands, an independent voluntary aid organisation. Helping Hands collects returned garments from some of our Swedish stores and leftover samples from our Head Office and sends them to people in need in other countries. Around 66,000 garments were donated during 2008.

OUR COMMUNITY INVESTMENTS

CONTINUED

Canada – windfall clothing services

Windfall Clothing Services assists homeless and emergency shelters to meet their clients' needs for new clothing. Windfall receives donations of new clothing and other basic need items from manufacturers, retailers and distributors and distributes them through partnerships with over 90 social service agencies in the Toronto area. In 2008 H&M Canada donated more than 10,000 pieces to Windfall.

Jubileum stiftelsen – H&M's foundation

In 2007, the year H&M turned 60 years old, we decided to set up a foundation with a donation of SEK 60 million (approximately \$6.9 million). The foundation will support projects aimed at improving the quality of life for people in the countries where we operate. This year the foundation has chosen to support a project by Hand in Hand.

Hand in hand

Hand in Hand is a public charitable trust active globally. H&M's foundation chose to support a project in the southern Indian state of Tamil Nadu, which has a population of 62 million. Hand in Hand shares our vision to eradicate child labour and reduce poverty with a focus on education, employment, income generation and empowerment. In order to achieve this, it is implementing an Integrated Community Development Programme which includes activities such as establishing citizen centres, self-help groups and medical camps, and facilitating access to credit. In 2008, H&M decided to support the Integrated Community Development Programme in ten villages through a donation of \$250,000. Progress on this development programme will be reported on in 2009.

www.handinhand.nu

*CURRENCY CONVERSION: APPROXIMATE FIGURES AS PER 19 FEBRUARY 2009

AUDITS

BASIC FIGURES



| Production Offices which carried out related audits (see clarification of related production countries per region in 2008 below) | TOTAL AUDITS | | FAP (FULL AUDITS) | | FUP (FOLLOW-UP AUDITS) | |
|--|--------------|-------------|-------------------|-------------|------------------------|-------------|
| | NO. | UNANNOUNCED | NO. | UNANNOUNCED | NO. | UNANNOUNCED |
| Bangladesh | 347 | 76% | 132 | 61% | 215 | 85% |
| India | 206 | 63% | 78 | 23% | 128 | 87% |
| Pakistan | 62 | 48% | 19 | 32% | 43 | 56% |
| TOTAL SOUTH ASIA | 615 | 68% | 229 | 45% | 386 | 82% |
| China | 954 | 71% | 250 | 40% | 704 | 81% |
| Indonesia | 87 | 80% | 16 | 13% | 71 | 96% |
| Cambodia | 58 | 79% | 23 | 74% | 35 | 83% |
| South Korea | 46 | 26% | 14 | 14% | 32 | 31% |
| TOTAL FAR EAST | 1145 | 70% | 303 | 40% | 842 | 81% |
| Latvia | 24 | 13% | 9 | 33% | 15 | 0% |
| Romania | 65 | 46% | 21 | 5% | 44 | 66% |
| Turkey | 555 | 52% | 200 | 34% | 355 | 62% |
| Italy | 14 | 0% | 11 | 0% | 3 | 0% |
| Bulgaria | 87 | 71% | 36 | 58% | 51 | 80% |
| Sweden | 4 | 25% | 3 | 0% | 1 | 100% |
| TOTAL EMEA | 749 | 51% | 280 | 33% | 469 | 62% |
| TOTAL | 2509 | 64% | 812 | 39% | 1697 | 76% |

AUDITS

BASIC FIGURES



COUNTRIES PER REGION WITH PRODUCTION FOR H&M IN 2008:

SOUTH ASIA: Bangladesh, India, Pakistan, Sri Lanka

FAR EAST: Cambodia, China, Indonesia, South Korea, Thailand, Vietnam

EMEA (EUROPE, MIDDLE EAST, AFRICA): Bulgaria, Czech Republic, Egypt, Italy, France, Greece, Latvia, Lithuania, Mauritius, Morocco, Poland, Portugal, Romania, Spain, Tunisia, Turkey, Ukraine

COUNTRIES WHERE ONLY LIMITED AUDITS WERE CONDUCTED DUE TO LOW RISKS OF NON-COMPLIANCE:

Czech Republic, France, Greece, Italy, Portugal, Spain

AUDITS OVER 5 YEARS

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|------|-----------------------------|------|------|------|
| Total number of audits | 2526 | 2012 | 1493 | 2670 | 2715 |
| Number of FAP audits* | 812 | 948 | 581 | 0 | 0 |
| Number of FUP audits* | 1697 | 1035 | 442 | 0 | 0 |
| Other audits | 0 | 0 | 451 | 2670 | 2715 |
| Audits conducted by FLA | 17 | 24 (+5 verification audits) | 19 | 0 | 0 |
| Share of audits conducted on potential new production units | 21% | 25% | 31% | 25% | 22% |

*Audit system consisting of FAP and FUP audits started to be implemented in 2006. Since 2007 all audits are conducted according to this system.

TEN MOST COMMON *NON-COMPLIANCE* ISSUES 2008



| | NO. OF FINDINGS 2008 | NON-COMPLIANCE LEVEL 2008 (2007) |
|--|----------------------|----------------------------------|
| Is there any system for dialogue between workers and management in place in the factory? | 539 | 80% (78%) |
| Is there a grievance system in place in the factory? | 520 | 74% (59%) |
| | | |
| 1. Are monthly overtime hours within the legal limit? | 506 | 73% (65%) |
| 6. Is the hazardous waste disposed of in a legal manner? | 371 | 59% (66%) |
| 2. Have the workers regularly handling chemicals been trained in safe chemical handling? | 363 | 72% (69%) |
| 3. Does the factory have complete safety data sheets for all chemical products? | 349 | 66% (72%) |
| 7. Is overtime compensated according to the law? | 345 | 49% (38%) |
| 5. Are the chemical containers properly labelled? | 326 | 61% (56%) |
| 4. Is the information in the safety data sheets implemented? | 321 | 64% (66%) |
| 8. Do all workers have an employment contract? | 312 | 44% (36%) |
| 9. Does the factory pay social security? | 270 | 42% (21%) |
| 10. Are the workers aware of and trained in fire fighting and evacuation? | 251 | 35% (33%) |

Aiming to create more comparability, non-compliance levels in percentages are provided comparing 2008 and 2007 audit findings. Please note that figures however do not refer to comparable production units.

To create the greatest possible accuracy and transparency non-compliance levels in percentages are weighted according to the frequency each question was raised during our FAP audits. Questions are only raised where applicable. The data includes findings from audits on new and potentially new production units (including 138 potential new production units which were rejected after an initial audit). The ranking is however based on the total number of detected non-compliances.

Compared to last year, several indicators show an increase in the non-compliance level, especially in the area of workers' rights requirements. This has been an expected result due to improved detection methods, an increase in unannounced FAP audits and greater transparency, although we cannot rule out that there have also been more non-compliances in fact.

TEN MOST COMMON *NON-COMPLIANCE* ISSUES 2008



Findings concerning grievance and dialogue systems are the most common ones, but not ranked here, since they are not requirements of our Code of Conduct. However, we believe good communication and functioning grievance systems are important for improving compliance and therefore they are covered by our audits.

Since 2008 we have seven of our auditors now specialised on EHS (environment, health and safety). They are also responsible for issues such as chemical handling. We note that this contributed to a high level of detection, while we see more compliance in some areas such as the disposal of hazardous waste.

We see that overtime remains an ongoing challenge. Greater focus on the issue, more transparency from our suppliers, more unannounced audits and better detection methods seem to bring us closer to the true picture. This has also led to the identification of a number of falsified documents especially in China during 2008.

NON-COMPLIANCE FINDINGS FROM FAP AUDITS



| QUESTION | FAR EAST | | | SOUTH ASIA | | | EMEA | | | TOTAL | | |
|--|----------------|-----|--------|----------------|-----|--------|----------------|-----|--------|----------------|-----|--------|
| | NON-COMPLIANCE | | | NON-COMPLIANCE | | | NON-COMPLIANCE | | | NON-COMPLIANCE | | |
| | NO. | % | % 2007 | NO. | % | % 2007 | NO. | % | % 2007 | NO. | % | % 2007 |
| WORKERS' RIGHTS | | | | | | | | | | | | |
| Is there any system for dialogue between workers and management in place in the factory? | 250 | 91% | 83% | 150 | 68% | 73% | 139 | 79% | 75% | 539 | 80% | 78% |
| Is there a grievance system in place in the factory? ¹ | 257 | 93% | 64% | 149 | 67% | 68% | 114 | 56% | 52% | 520 | 74% | 59% |
| Are monthly overtime hours within the legal limit? | 221 | 82% | 71% | 158 | 72% | 60% | 127 | 61% | 63% | 506 | 73% | 65% |
| Is overtime compensated according to the law? | 174 | 65% | 31% | 43 | 20% | 20% | 128 | 58% | 50% | 345 | 49% | 38% |
| Do all workers have an employment contract? | 114 | 41% | 18% | 91 | 41% | 57% | 107 | 49% | 41% | 312 | 44% | 36% |
| Does the factory pay social security? | 140 | 51% | 11% | 19 | 14% | 19% | 111 | 48% | 30% | 270 | 42% | 21% |
| Is annual leave granted and paid for according to law? | 156 | 58% | 41% | 45 | 22% | 17% | 62 | 33% | 23% | 263 | 40% | 29% |
| Are correct wages paid regularly and on time? | 68 | 25% | 15% | 61 | 27% | 31% | 71 | 33% | 16% | 200 | 28% | 18% |
| Are all additional types of leave, stipulated by law, granted to all workers? | 118 | 44% | 30% | 52 | 25% | 43% | 10 | 6% | 5% | 180 | 28% | 22% |
| Is sick leave compensated by the factory according to the law? ² | 143 | 52% | 56% | 23 | 13% | 27% | 1 | 3% | 6% | 167 | 35% | 40% |
| Does the basic salary for every employee amount to at least the minimum wage for normal working hours (including piece rate workers)? ³ | 66 | 25% | 10% | 16 | 7% | 7% | 58 | 25% | 19% | 140 | 19% | 14% |
| Are the regular working hours within the legal limit (excluding overtime)? | 46 | 17% | 8% | 16 | 7% | 4% | 75 | 35% | 28% | 137 | 19% | 16% |
| Is sick leave granted according to the law? | 72 | 26% | 14% | 30 | 14% | 18% | 25 | 12% | 10% | 127 | 18% | 13% |
| Is maternity leave given and paid for according to law? | 97 | 36% | 18% | 9 | 5% | 9% | 0 | 0% | 1% | 106 | 16% | 8% |

NON-COMPLIANCE FINDINGS FROM FAP AUDITS



| QUESTION | FAR EAST | | | SOUTH ASIA | | | EMEA | | | TOTAL | | |
|--|----------------|------------|------------|----------------|------------|------------|----------------|------------|------------|----------------|------------|------------|
| | NON-COMPLIANCE | | | NON-COMPLIANCE | | | NON-COMPLIANCE | | | NON-COMPLIANCE | | |
| | NO. | % | % 2007 | NO. | % | % 2007 | NO. | % | % 2007 | NO. | % | % 2007 |
| WORKERS' RIGHTS | | | | | | | | | | | | |
| Does the factory fulfil the legal requirement concerning day care? | 9 | 39% | 41% | 51 | 29% | 42% | 12 | 55% | 30% | 72 | 32% | 38% |
| Are all workers protected from any forms of abusive behaviour in the factory? | 4 | 1% | 2% | 11 | 5% | 14% | 8 | 4% | 2% | 23 | 3% | 4% |
| Do foreign and migrant workers have a residential permit/working permit? | 8 | 5% | 3% | 0 | 0% | 0% | 3 | 33% | 15% | 11 | 7% | 4% |
| Are all workers doing their work voluntary at all times? | 6 | 2% | 1% | 2 | 1% | 1% | 2 | 1% | 1% | 10 | 1% | 1% |
| Are all workers protected from any form of physical abuse or sexual harassment? | 0 | 0% | 0% | 3 | 1% | 2% | 5 | 2% | 1% | 8 | 1% | 1% |
| Are all workers, despite for example gender, ethnic, religious or geographical background treated equally? | 1 | 0% | 0% | 1 | 0% | 1% | 5 | 2% | 1% | 7 | 1% | 1% |
| Do the workers have the right to bargain collectively? | 0 | 0% | 0% | 2 | 1% | 1% | 0 | 0% | 0% | 2 | 0% | 0% |
| Are pregnant women guaranteed their employment during and after pregnancy? | 1 | 0% | 0% | 1 | 1% | 0% | 0 | 0% | 0% | 2 | 0% | 0% |
| Do foreign and migrant workers have equal employment terms as local workers? | 1 | 0% | 0% | 0 | 0% | 8% | 0 | 0% | 0% | 1 | 0% | 0% |
| Are workers in the factory free to join or form a union? ⁴ | 0 | 0% | 0% | 0 | 0% | 0% | 0 | 0% | 0% | 0 | 0% | 0% |
| TOTAL | 1952 | 33% | 22% | 933 | 20% | 23% | 1063 | 25% | 21% | 3948 | 27% | 21% |
| REQUIREMENTS FOR YOUNG WORKERS | | | | | | | | | | | | |
| Are workers below 18 working under legal conditions? ⁵ | 81 | 48% | 19% | 10 | 37% | 39% | 150 | 92% | 84% | 241 | 67% | 55% |
| TOTAL | 81 | 48% | 19% | 10 | 37% | 39% | 150 | 92% | 94% | 241 | 67% | 55% |

NON-COMPLIANCE FINDINGS FROM FAP AUDITS



| QUESTION | FAR EAST | | | SOUTH ASIA | | | EMEA | | | TOTAL | | |
|--|----------------|-----------|-----------|----------------|-----------|-----------|----------------|-----------|-----------|----------------|-----------|-----------|
| | NON-COMPLIANCE | | | NON-COMPLIANCE | | | NON-COMPLIANCE | | | NON-COMPLIANCE | | |
| | NO. | % | % 2007 | NO. | % | % 2007 | NO. | % | % 2007 | NO. | % | % 2007 |
| CHILD LABOUR | | | | | | | | | | | | |
| Are all workers above or the same age as the minimum age required by the national law and H&Ms Code of Conduct? ⁶ | 14 | 5% | 3% | 0 | 0% | 0% | 14 | 6% | 3% | 28 | 4% | 2% |
| TOTAL | 14 | 5% | 3% | 0 | 0% | 0% | 14 | 6% | 3% | 28 | 4% | 2% |
| FACTORY CONDITIONS (BASIC HEALTH & SAFETY)* | | | | | | | | | | | | |
| Are the workers aware of and trained in fire fighting and evacuation? | 114 | 41% | 10% | 38 | 17% | 22% | 99 | 46% | 55% | 251 | 35% | 33% |
| Is personal protection equipment provided and used, where necessary? | 152 | 59% | 43% | 38 | 18% | 32% | 64 | 42% | 49% | 254 | 41% | 43% |
| Are any workers trained in first aid? | 134 | 49% | 20% | 19 | 9% | 14% | 85 | 40% | 50% | 238 | 34% | 33% |
| Are all additional safety requirements met? | 114 | 41% | 17% | 20 | 9% | 25% | 91 | 42% | 47% | 225 | 31% | 32% |
| Is adequate first aid equipment available on all floors? | 114 | 41% | 13% | 14 | 6% | 13% | 39 | 18% | 27% | 167 | 23% | 20% |
| Are hazardous machines equipped with necessary protection? | 51 | 21% | 20% | 15 | 7% | 12% | 77 | 36% | 43% | 143 | 21% | 29% |
| Are all basic safety requirements met? | 58 | 21% | 5% | 18 | 8% | 11% | 61 | 26% | 27% | 137 | 19% | 16% |
| Are toilets clean and maintained? | 65 | 23% | 16% | 17 | 8% | 25% | 28 | 13% | 6% | 110 | 15% | 13% |
| Is the ventilation in the factory adequate? | 49 | 18% | 6% | 15 | 7% | 14% | 27 | 12% | 13% | 91 | 13% | 11% |
| Can the workers drink water without health risks? | 12 | 4% | 3% | 18 | 8% | 17% | 49 | 23% | 16% | 79 | 11% | 12% |
| Is the factory clean and free from dirt and dust? | 44 | 16% | 10% | 13 | 6% | 16% | 8 | 4% | 6% | 65 | 9% | 9% |
| Does the factory provide a canteen/dining area available for the workers? | 13 | 6% | 6% | 24 | 11% | 17% | 13 | 6% | 6% | 50 | 8% | 8% |

NON-COMPLIANCE FINDINGS FROM FAP AUDITS



| QUESTION | FAR EAST | | | SOUTH ASIA | | | EMEA | | | TOTAL | | |
|---|----------------|------------|------------|----------------|-----------|------------|----------------|------------|------------|----------------|------------|------------|
| | NON-COMPLIANCE | | | NON-COMPLIANCE | | | NON-COMPLIANCE | | | NON-COMPLIANCE | | |
| | NO. | % | % 2007 | NO. | % | % 2007 | NO. | % | % 2007 | NO. | % | % 2007 |
| FACTORY CONDITIONS (BASIC HEALTH & SAFETY)* | | | | | | | | | | | | |
| In case of injury or illness, can medical care for the workers be provided at short notice? | 15 | 5% | 5% | 13 | 6% | 12% | 16 | 7% | 5% | 44 | 6% | 6% |
| Is the temperature in the factory tolerable to work in? | 11 | 4% | 4% | 7 | 3% | 9% | 19 | 9% | 8% | 37 | 5% | 7% |
| Do the workers have unlimited access to the toilets? | 5 | 2% | 1% | 7 | 3% | 7% | 12 | 6% | 2% | 24 | 3% | 3% |
| Is there a sufficient number of toilets? | 12 | 4% | 4% | 3 | 1% | 14% | 8 | 4% | 4% | 23 | 3% | 5% |
| Is the building considered as safe? ⁷ | 2 | n.a. | n.a. | 6 | n.a. | n.a. | 0 | n.a. | n.a. | 8 | n.a. | n.a. |
| Is the light in the factory sufficient for intended work? | 2 | 1% | 1% | 1 | 0% | 1% | 2 | 1% | 1% | 5 | 1% | 1% |
| TOTAL | 967 | 21% | 11% | 286 | 8% | 15% | 698 | 19% | 21% | 1951 | 16% | 16% |
| ENVIRONMENT | | | | | | | | | | | | |
| Is the hazardous waste disposed of in a legal manner? | 199 | 77% | 61% | 19 | 12% | 36% | 153 | 74% | 80% | 371 | 59% | 66% |
| Have the workers regularly handling chemicals been trained in safe chemical handling? | 171 | 84% | 56% | 105 | 64% | 78% | 87 | 63% | 74% | 363 | 72% | 69% |
| Does the factory have complete safety data sheets for all chemical products? | 170 | 78% | 64% | 111 | 65% | 77% | 68 | 49% | 76% | 349 | 66% | 72% |
| Are the chemical containers properly labelled? | 181 | 82% | 60% | 100 | 57% | 68% | 45 | 32% | 48% | 326 | 61% | 56% |
| Is the information in the safety data sheets implemented? | 148 | 73% | 54% | 107 | 66% | 72% | 66 | 48% | 71% | 321 | 64% | 66% |
| Does the factory have the legally required environmental permits/licences? | 29 | 17% | 15% | 19 | 10% | 17% | 91 | 44% | 36% | 139 | 24% | 26% |
| Is sludge from the wastewater treatment disposed of in a legal or otherwise responsible manner? | 21 | 36% | 16% | 7 | 11% | 36% | 3 | 20% | 41% | 31 | 22% | 30% |

NON-COMPLIANCE FINDINGS FROM FAP AUDITS



| QUESTION | FAR EAST | | | SOUTH ASIA | | | EMEA | | | TOTAL | | |
|--|----------------|------------|------------|----------------|------------|------------|----------------|------------|------------|----------------|------------|------------|
| | NON-COMPLIANCE | | | NON-COMPLIANCE | | | NON-COMPLIANCE | | | NON-COMPLIANCE | | |
| | NO. | % | % 2007 | NO. | % | % 2007 | NO. | % | % 2007 | NO. | % | % 2007 |
| ENVIRONMENT | | | | | | | | | | | | |
| Does the wastewater treatment system meet requirements in local legislation? | 8 | 13% | 12% | 12 | 16% | 20% | 5 | 28% | 32% | 25 | 16% | 21% |
| Is the outgoing wastewater treated? | 10 | 10% | 20% | 8 | 10% | 35% | 5 | 19% | 16% | 23 | 11% | 23% |
| Are there clear signs that the wastewater treatment system is in use? | 8 | 12% | 10% | 5 | 7% | 18% | 1 | 6% | 9% | 14 | 9% | 13% |
| Is the factory complying with all relevant environmental laws? ⁷ | 1 | n.a. | n.a. | 2 | n.a. | n.a. | 2 | n.a. | n.a. | 5 | n.a. | n.a. |
| TOTAL | 946 | 61% | 47% | 495 | 37% | 50% | 526 | 50% | 60% | 1967 | 50% | 54% |
| SANDBLASTING & CHEMICAL TREATMENT | | | | | | | | | | | | |
| Are legally required air quality measurements done? | 12 | 92% | n.a. | 0 | 0% | n.a. | 1 | 33% | n.a. | 13 | 68% | n.a. |
| Are the legally required health checks in place in the factory? | 12 | 86% | n.a. | 0 | 0% | n.a. | 0 | 0% | n.a. | 12 | 60% | n.a. |
| Are the workers spraying chemicals using the PPE needed? | 6 | 60% | n.a. | 4 | 44% | n.a. | 1 | 20% | n.a. | 11 | 46% | n.a. |
| Are the workers educated on safe handling and risks? | 5 | 50% | n.a. | 4 | 50% | n.a. | 0 | 0% | n.a. | 9 | 43% | n.a. |
| Is there a wash station in direct connection with the sandblasting workplace in case dust or chemicals get into workers' eyes? | 3 | 23% | n.a. | 3 | 33% | n.a. | 1 | 33% | n.a. | 7 | 28% | n.a. |
| Is hearing protection worn if there is a noisy environment, e.g. sandblasting? | 5 | 56% | n.a. | 1 | 25% | n.a. | 0 | 0% | n.a. | 6 | 43% | n.a. |
| Does the sandblasting material contain less than 1% crystalline silica (SiO ₂)? | 2 | 29% | n.a. | 3 | 75% | n.a. | 1 | 100% | n.a. | 6 | 50% | n.a. |
| Are the workers handling potassium permanganate in storage and mixing using the PPE needed? | 5 | 38% | n.a. | 1 | 11% | n.a. | 0 | 0% | n.a. | 6 | 22% | n.a. |

NON-COMPLIANCE FINDINGS FROM FAP AUDITS



| QUESTION | FAR EAST | | | SOUTH ASIA | | | EMEA | | | TOTAL | | |
|--|----------------|------------|-------------|----------------|------------|-------------|----------------|------------|-------------|----------------|------------|-------------|
| | NON-COMPLIANCE | | | NON-COMPLIANCE | | | NON-COMPLIANCE | | | NON-COMPLIANCE | | |
| | NO. | % | % 2007 | NO. | % | % 2007 | NO. | % | % 2007 | NO. | % | % 2007 |
| SANDBLASTING & CHEMICAL TREATMENT | | | | | | | | | | | | |
| Is the potassium permanganate stored safely? | 3 | 20% | n.a. | 2 | 22% | n.a. | 0 | 0% | n.a. | 5 | 17% | n.a. |
| Are the workers' sponging chemicals wearing impervious gloves? | 3 | 43% | n.a. | 0 | 0% | n.a. | 1 | 20% | n.a. | 4 | 24% | n.a. |
| Does the factory have the required permit for doing sandblasting? | 3 | 50% | n.a. | 0 | 0% | n.a. | 0 | 0% | n.a. | 3 | 33% | n.a. |
| Is compulsory personal protective equipment used? | 0 | 0% | n.a. | 3 | 75% | n.a. | 0 | 0% | n.a. | 3 | 30% | n.a. |
| Does the cleaning staff have compulsory PPE when cleaning sandblasting area? | 0 | 0% | n.a. | 2 | 40% | n.a. | 0 | 0% | n.a. | 2 | 22% | n.a. |
| Is ventilation sufficient? | 1 | 8% | n.a. | 0 | 0% | n.a. | 0 | 0% | n.a. | 1 | 4% | n.a. |
| Is ventilation adopted for sandblasting activity? | 1 | 11% | n.a. | 0 | 0% | n.a. | 0 | 0% | n.a. | 1 | 7% | n.a. |
| Is the sandblasting done in a separate area? | 1 | 11% | n.a. | 0 | 0% | n.a. | 0 | 0% | n.a. | 1 | 6% | n.a. |
| Is additional personal protective equipment provided by employer? | 0 | 0% | n.a. | 0 | 0% | n.a. | 0 | 0% | n.a. | 0 | 0% | n.a. |
| TOTAL | 62 | 39% | n.a. | 23 | 23% | n.a. | 5 | 12% | n.a. | 90 | 30% | n.a. |
| HOUSING CONDITIONS | | | | | | | | | | | | |
| Are workers granted some personal privacy? | 62 | 45% | 36% | 3 | 33% | 43% | 0 | 0% | 0% | 65 | 44% | 36% |
| Does the dormitory meet required basic safety? | 25 | 18% | 9% | 1 | 11% | 0% | 0 | 0% | 0% | 26 | 18% | 9% |
| Is the dormitory clean and hygienic? | 17 | 12% | 10% | 0 | 0% | 14% | 0 | 0% | 0% | 17 | 11% | 10% |
| Are there a sufficient number of clean toilets? | 8 | 6% | 8% | 1 | 11% | 14% | 0 | 0% | 0% | 9 | 6% | 8% |

NON-COMPLIANCE FINDINGS FROM FAP AUDITS



| QUESTION | FAR EAST | | | SOUTH ASIA | | | EMEA | | | TOTAL | | |
|---|----------------|------------|------------|----------------|------------|------------|----------------|------------|------------|----------------|------------|------------|
| | NON-COMPLIANCE | | | NON-COMPLIANCE | | | NON-COMPLIANCE | | | NON-COMPLIANCE | | |
| | NO. | % | % 2007 | NO. | % | % 2007 | NO. | % | % 2007 | NO. | % | % 2007 |
| HOUSING CONDITIONS | | | | | | | | | | | | |
| Are facilities for private hygiene provided? | 7 | 5% | 6% | 1 | 11% | 0% | 0 | 0% | 0% | 8 | 5% | 5% |
| Is the dormitory separated from the factory building? | 5 | 4% | 1% | 2 | 20% | 14% | 0 | 0% | 0% | 7 | 5% | 1% |
| Do the workers have access to and from the dormitory at any time? | 4 | 3% | 0% | 0 | 0% | 0% | 0 | 0% | 0% | 4 | 3% | 0% |
| If there is a staffed kitchen in the dormitory, is it clean and hygienic? | 3 | 14% | 31% | 1 | 14% | 14% | 0 | 0% | n.a. | 4 | 14% | 25% |
| Does everyone living in the dormitory have an individual bed? | 1 | 1% | 0% | 2 | 22% | 0% | 0 | 0% | 0% | 3 | 2% | 0% |
| Is the temperature in the dormitory tolerable? | 2 | 1% | 4% | 1 | 11% | 0% | 0 | 0% | 0% | 3 | 2% | 3% |
| TOTAL | 134 | 11% | 8% | 12 | 13% | 10% | 0 | 0% | 0% | 146 | 11% | 8% |
| GRAND TOTAL | 4156 | 52% | 19% | 1759 | 17% | 23% | 2456 | 10% | 25% | 8371 | 25% | 22% |

* Subject to self assessment for selected key suppliers from 2009 on.

The table discloses all findings from our FAP audits in 2008 with comparison to 2007. Please note that findings from the two years do not necessarily relate to comparable production units.

Not all questions from our audit questionnaires are raised at every audit, but whenever applicable. For example, only a few production units perform sandblasting and housing for workers is rare in Europe. To provide a transparent and true picture, non-compliance levels are related to the frequency a question has been asked. This can sometimes lead to high percentage figures, while this stands for a low number of production units only.

The data includes all audit findings at FAP status from 2008 (2007). This also means that findings from audits on new or potentially new production units (also rejected ones) are included. During 2008 a total of 515 audits were carried out on potential new production units. Of these 312 production units were approved after this audit, 138 were rejected. 65 were not used due to, e.g. commercial reasons.

Questions regarding sandblasting requirements have been asked since early 2007, but only registered in our data system since mid 2008.

NON-COMPLIANCE *FINDINGS* FROM FAP AUDITS



Generally we see an increase in the non-compliance level compared to 2007 for many issues especially in the Far East region. This is primarily caused by refined methods for detecting non-compliances, improved transparency from our suppliers and more unannounced audits (40% of all FAP audits and 81% of all follow-up audits (FUPs) in the Far East were unannounced in 2008). Especially in China we note that more trusting relationships with our suppliers and improved methods result in more findings, for example when it comes to employment contracts, overtime and its compensation, social security payments, minimum wages and workers' awareness on fire fighting and evacuation measures. You can find more in depth comments on some issues below:

- 1 **Grievance systems:** Grievance systems are not required by our Code of Conduct. Findings are not considered as non-compliances. However, we think that functioning grievance systems are important tools on the way to compliance. We have increased our focus on this issue and during 2008 provided training for our auditors, especially in China (read more about it in the Auditor training chapter). This has led to a higher number of findings.
- 2 **Sick leave compensation:** Many countries in the EMEA region have public social security systems. For this reason, findings on this issue are very low here compared to the other regions.
- 3 **Minimum wages:** Not complying with the requirements concerning the payment of minimum wages leads to rejection. Non-compliances registered here primarily refer to findings from potential new production units that were rejected.
- 4 **Freedom of association:** Non-compliances in this area are often hard to detect. However, we are aware of several cases of non-compliance issues especially from South Asia. H&M has been involved in solving/negotiating these cases, although they were not registered in our audit data system. We do of course also recognise that freedom of association is not granted in China and Vietnam due to related legislations.
- 5 **Requirements for young workers:** Non-compliances are most common in the EMEA region. The majority of these cases refer to exceeding the legal limit of working hours for workers below the age of 18.
- 6 **Child labour:**
A total of 28 production units with child labour issues have been detected in 2008. Of these, 22 were existing production units, six were potential new ones which H&M has never had a business relationship with and accordingly did not enter such a relationship.

Active production units:

13 production units with non-compliance cases were detected in China, eight in Turkey and one in Cambodia. All in all a total of 25 children were found working at these production units. Almost all cases from China involved 15-year-old youths, while there were two 14-year-old children. The legal working age in China is 16 years. The youngest child found was 13 years and 11 months old. This has been the case at one of our suppliers in Turkey, which has been permanently rejected due to this violation. All other cases in Turkey as well as the case in Cambodia involved 14 year olds. Both countries require a minimum age of 15 years. In most cases forms of education were offered, while some children returned to school and others received other forms of education (for example computer training), in any case accompanied by financial support from the concerned supplier as required by H&M. In some cases, especially from Turkey, involving children very close to the legal working age of 15 years, it has been agreed to re-employ them after reaching the legal age. Until then, at least the minimum wage will be paid by the concerned supplier. Similar measures have been taken in regard to four cases from China and the one from Cambodia.

Potential new production units:

While auditing potential new production units, six of these in Turkey were found to be using child labour. H&M never had a business relationship with these production units and due to these findings, the concerned production units were graded rejected and not taken into consideration for producing goods for H&M.

Find general information about what we do when we detect child labour on hm.com/csr.

- 7 **Building safety & environmental laws:** For these two questions, only non-compliances are registered in the data system although they are a regular part of our audits. Non-compliance levels in percentages are therefore not available.

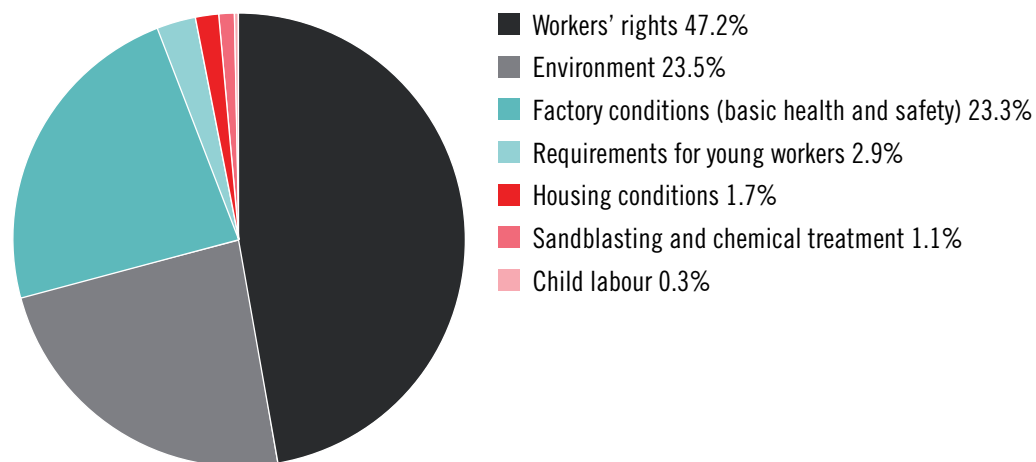
SHARE OF NON-COMPLIANCE ISSUES

2008



The data represents the share of non-compliance issues based on the total number of findings from all FAP audits conducted during 2008 (812 audits).

Workers' rights issues are in focus of our audits and will remain there. Sandblasting requirements exist since early 2007 and first assesment audits have already been conducted during 2006. However, they were not entered into our data system until mid 2008. So, the given finding rate is considered to be too low. Since 2008 seven of our auditors are focused on EHS (environment, health and safety) issues and we have a global EHS coordinator in place. EHS includes requirements concerning sandblasting and chemical treatment. We expect a higher amount of findings in these issues in the future. Factory condition related findings stand for around 24% of all findings. However, we feel that our focus is best put on workers' rights and the environment. In 2009 we will test out self assesments in the area of factory conditions (basic health and safety) with some selected key suppliers.



PROGRESS

FAP 1 – FAP 2



| QUESTION | FAR EAST (11 PRODUCTION UNITS) | | | | | | SOUTH ASIA (92 PRODUCTION UNITS) | | | | | | EMEA (59 PRODUCTION UNITS) | | | | | | TOTAL (162 PRODUCTION UNITS) | | | | | |
|---|--------------------------------|-------|---------------|-------|----------------|---------------|----------------------------------|-------|----------------|-------|--------|---------------|----------------------------|-------|---------------|-------|----------------|---------------|------------------------------|-------|---------------|-----|-----|------|
| | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | | | | |
| | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | | | |
| | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | | |
| WORKERS' RIGHTS | | | | | | | | | | | | | | | | | | | | | | | | |
| Do all workers have an employment contract? | 5 | 45% | 2 | 18% | -3 | -60% | 98 | 107% | 59 | 64% | -39 | -40% | 62 | 105% | 23 | 39% | -39 | -63% | 165 | 102% | 84 | 52% | -81 | -49% |
| Is there a grievance system in place in the factory? | 8 | 73% | 8 | 73% | 0 | 0% | 97 | 105% | 71 | 77% | -26 | -27% | 33 | 56% | 27 | 46% | -6 | -18% | 138 | 85% | 106 | 65% | -32 | -23% |
| Are monthly overtime hours within the legal limit? | 9 | 82% | 9 | 82% | 0 | 0% | 84 | 91% | 84 | 91% | 0 | 0% | 42 | 71% | 36 | 61% | -6 | -14% | 135 | 83% | 129 | 80% | -6 | -4% |
| Is there any system for dialogue between workers and management in place in the factory? | 9 | 82% | 4 | 36% | -5 | -56% | 85 | 92% | 75 | 82% | -10 | -12% | 37 | 63% | 34 | 58% | -3 | -8% | 131 | 81% | 113 | 70% | -18 | -14% |
| Are correct wages paid regularly and on time? | 5 | 45% | 1 | 9% | -4 | -80% | 74 | 80% | 38 | 41% | -36 | -49% | 14 | 24% | 10 | 17% | -4 | -29% | 93 | 57% | 49 | 30% | -44 | -47% |
| Is overtime compensated according to the law? | 4 | 36% | 4 | 36% | 0 | 0% | 45 | 49% | 12 | 13% | -33 | -73% | 32 | 54% | 16 | 27% | -16 | -50% | 81 | 50% | 32 | 20% | -49 | -60% |
| Does the basic salary for every employee amount to at least the minimum wage for normal working hours (including piece rate workers)? | 3 | 27% | 0 | 0% | -3 | -100% | 44 | 48% | 10 | 11% | -34 | -77% | 23 | 39% | 3 | 5% | -20 | -87% | 70 | 43% | 13 | 8% | -57 | -81% |
| Is annual leave granted and paid for according to law? | 3 | 27% | 1 | 9% | -2 | -67% | 33 | 36% | 22 | 24% | -11 | -33% | 12 | 20% | 9 | 15% | -3 | -25% | 48 | 30% | 32 | 20% | -16 | -33% |
| Are all workers protected from any forms of abusive behaviour in the factory? | 0 | 0% | 0 | 0% | 0 | 0% | 43 | 47% | 6 | 7% | -37 | -86% | 0 | 0% | 2 | 3% | 2 | 0% | 43 | 27% | 8 | 5% | -35 | -81% |
| Does the factory fulfil the legal requirement concerning day care? | 3 | 27% | 3 | 27% | 0 | 0% | 36 | 39% | 30 | 33% | -6 | -17% | 0 | 0% | 2 | 3% | 2 | 0% | 39 | 24% | 35 | 22% | -4 | -10% |
| Are the regular working hours within the legal limit? (excluding overtime) | 1 | 9% | 1 | 9% | 0 | 0% | 20 | 22% | 4 | 4% | -16 | -80% | 14 | 24% | 4 | 7% | -10 | -71% | 35 | 22% | 9 | 6% | -26 | -74% |

PROGRESS

FAP 1 – FAP 2



| QUESTION | FAR EAST (11 PRODUCTION UNITS) | | | | | | SOUTH ASIA (92 PRODUCTION UNITS) | | | | | | EMEA (59 PRODUCTION UNITS) | | | | | | TOTAL (162 PRODUCTION UNITS) | | | | | |
|---|--------------------------------|-------|---------------|-------|----------------|---------------|----------------------------------|-------|----------------|-------|--------|---------------|----------------------------|-------|---------------|-------|----------------|---------------|------------------------------|-------|---------------|-----|-----|-------|
| | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | | | | |
| | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | | | |
| | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | | |
| WORKERS' RIGHTS | | | | | | | | | | | | | | | | | | | | | | | | |
| Is sick leave granted according to the law? | 2 | 18% | 1 | 9% | -1 | -50% | 32 | 35% | 15 | 16% | -17 | -53% | 1 | 2% | 1 | 2% | 0 | 0% | 35 | 22% | 17 | 10% | -18 | -51% |
| Is maternity leave given and paid for according to law? | 3 | 27% | 3 | 27% | 0 | 0% | 29 | 32% | 7 | 8% | -22 | -76% | 1 | 2% | 1 | 2% | 0 | 0% | 33 | 20% | 11 | 7% | -22 | -67% |
| Are all additional types of leave, stipulated by law, granted to all workers? | 2 | 18% | 2 | 18% | 0 | 0% | 22 | 24% | 24 | 26% | 2 | 9% | 5 | 8% | 5 | 8% | 0 | 0% | 29 | 18% | 31 | 19% | 2 | 7% |
| Does the factory pay social security? | 4 | 36% | 1 | 9% | -3 | -75% | 7 | 8% | 5 | 5% | -2 | -29% | 15 | 25% | 9 | 15% | -6 | -40% | 26 | 16% | 15 | 9% | -11 | -42% |
| Are all workers doing their work voluntary at all times? | 1 | 9% | 0 | 0% | -1 | -100% | 24 | 26% | 3 | 3% | -21 | -88% | 0 | 0% | 0 | 0% | 0 | 0% | 25 | 15% | 3 | 2% | -22 | -88% |
| Is sick leave compensated by the factory according to the law? | 5 | 45% | 2 | 18% | -3 | -60% | 15 | 16% | 5 | 5% | -10 | -67% | 1 | 2% | 0 | 0% | -1 | -100% | 21 | 13% | 7 | 4% | -14 | -67% |
| Are pregnant women guaranteed their employment during and after pregnancy? | 0 | 0% | 0 | 0% | 0 | 0% | 11 | 12% | 0 | 0% | -11 | -100% | 0 | 0% | 0 | 0% | 0 | 0% | 11 | 7% | 0 | 0% | -11 | -100% |
| Are all workers protected from any form of physical abuse or sexual harassment? | 0 | 0% | 0 | 0% | 0 | 0% | 9 | 10% | 0 | 0% | -9 | -100% | 0 | 0% | 0 | 0% | 0 | 0% | 9 | 6% | 0 | 0% | -9 | -100% |
| Do the workers have the right to bargain collectively? | 0 | 0% | 0 | 0% | 0 | 0% | 5 | 5% | 0 | 0% | -5 | -100% | 1 | 2% | 0 | 0% | -1 | -100% | 6 | 4% | 0 | 0% | -6 | -100% |
| Are workers in the factory free to join or form a union? | 0 | 0% | 0 | 0% | 0 | 0% | 2 | 2% | 0 | 0% | -2 | -100% | 0 | 0% | 0 | 0% | 0 | 0% | 2 | 1% | 0 | 0% | -2 | -100% |
| Do foreign and migrant workers have a residential permit/working permit? | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 0 | 0% | -1 | -100% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 0 | 0% | -1 | -100% |

PROGRESS

FAP 1 – FAP 2



| QUESTION | FAR EAST (11 PRODUCTION UNITS) | | | | | | SOUTH ASIA (92 PRODUCTION UNITS) | | | | | | EMEA (59 PRODUCTION UNITS) | | | | | | TOTAL (162 PRODUCTION UNITS) | | | | | |
|---|--------------------------------|-------|---------------|-------|----------------|---------------|----------------------------------|-------|----------------|-------|--------|---------------|----------------------------|-------|---------------|-------|----------------|---------------|------------------------------|-------|---------------|-----|-----|-------|
| | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | | | | |
| | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | | | |
| | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | | |
| WORKERS' RIGHTS | | | | | | | | | | | | | | | | | | | | | | | | |
| Are all workers, regardless of gender, ethnic, religious or geographical background treated equally? | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 2% | 0 | 0% | -1 | -100% | 1 | 1% | 0 | 0% | -1 | -100% |
| REQUIREMENTS FOR YOUNG WORKERS | | | | | | | | | | | | | | | | | | | | | | | | |
| Are workers below 18 working under legal conditions? | 1 | 9% | 1 | 9% | 0 | 0% | 12 | 13% | 6 | 7% | -6 | -50% | 54 | 92% | 25 | 42% | -29 | -54% | 67 | 41% | 32 | 20% | -35 | -52% |
| CHILD LABOUR | | | | | | | | | | | | | | | | | | | | | | | | |
| Are all workers above or the same age as the minimum age required by the national law and H&Ms Code of Conduct? | 0 | 0% | 0 | 0% | 0 | 0% | 5 | 5% | 0 | 0% | -5 | -100% | 3 | 5% | 0 | 0% | -3 | -100% | 8 | 5% | 0 | 0% | -8 | -100% |
| FACTORY CONDITIONS (BASIC HEALTH & SAFETY) | | | | | | | | | | | | | | | | | | | | | | | | |
| Are all additional safety requirements met? | 2 | 18% | 1 | 9% | -1 | -50% | 32 | 35% | 0 | 0% | -32 | -100% | 36 | 61% | 11 | 19% | -25 | -69% | 70 | 43% | 12 | 7% | -58 | -83% |
| Are the workers aware of and trained in fire fighting and evacuation? | 1 | 9% | 1 | 9% | 0 | 0% | 31 | 34% | 12 | 13% | -19 | -61% | 35 | 59% | 10 | 17% | -25 | -71% | 67 | 41% | 23 | 14% | -44 | -66% |
| Are all basic safety requirements met? | 7 | 64% | 0 | 0% | -7 | -100% | 31 | 34% | 12 | 13% | -19 | -61% | 22 | 37% | 2 | 3% | -20 | -91% | 60 | 37% | 14 | 9% | -46 | -77% |
| Is personal protection equipment (PPE) provided and used, where necessary? | 3 | 27% | 3 | 27% | 0 | 0% | 40 | 43% | 11 | 12% | -29 | -73% | 16 | 27% | 11 | 19% | -5 | -31% | 59 | 36% | 25 | 15% | -34 | -58% |
| Are any workers trained in first aid? | 3 | 27% | 3 | 27% | 0 | 0% | 21 | 23% | 10 | 11% | -11 | -52% | 30 | 51% | 4 | 7% | -26 | -87% | 54 | 33% | 17 | 10% | -37 | -69% |
| Are toilets clean and maintained? | 4 | 36% | 3 | 27% | -1 | -25% | 25 | 27% | 5 | 5% | -20 | -80% | 9 | 15% | 6 | 10% | -3 | -33% | 38 | 23% | 14 | 9% | -24 | -63% |
| Can the workers drink water without health risks? | 1 | 9% | 0 | 0% | -1 | -100% | 23 | 25% | 8 | 9% | -15 | -65% | 10 | 17% | 5 | 8% | -5 | -50% | 34 | 21% | 13 | 8% | -21 | -62% |
| Is the ventilation in the factory adequate? | 2 | 18% | 0 | 0% | -2 | -100% | 27 | 29% | 6 | 7% | -21 | -78% | 5 | 8% | 5 | 8% | 0 | 0% | 34 | 21% | 11 | 7% | -23 | -68% |

PROGRESS

FAP 1 – FAP 2



| QUESTION | FAR EAST (11 PRODUCTION UNITS) | | | | | | SOUTH ASIA (92 PRODUCTION UNITS) | | | | | | EMEA (59 PRODUCTION UNITS) | | | | | | TOTAL (162 PRODUCTION UNITS) | | | | | |
|---|--------------------------------|-------|---------------|-------|----------------|---------------|----------------------------------|-------|----------------|-------|--------|---------------|----------------------------|-------|---------------|-------|----------------|---------------|------------------------------|-------|---------------|-----|-----|------|
| | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | NON-COMPLIANCE | | CHANGE | | | | | |
| | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | | | |
| | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | | |
| FACTORY CONDITIONS (BASIC HEALTH & SAFETY) | | | | | | | | | | | | | | | | | | | | | | | | |
| Is adequate first aid equipment available on all floors? | 3 | 27% | 1 | 9% | -2 | -67% | 14 | 15% | 4 | 4% | -10 | -71% | 12 | 20% | 7 | 12% | -5 | -42% | 29 | 18% | 12 | 7% | -17 | -59% |
| Are hazardous machines equipped with necessary protection? | 1 | 9% | 0 | 0% | -1 | -100% | 11 | 12% | 4 | 4% | -7 | -64% | 13 | 22% | 9 | 15% | -4 | -31% | 25 | 15% | 13 | 8% | -12 | -48% |
| Does the factory provide a canteen/dining area available for the workers? | 0 | 0% | 0 | 0% | 0 | 0% | 17 | 18% | 16 | 17% | -1 | -6% | 4 | 7% | 5 | 8% | 1 | 25% | 21 | 13% | 21 | 13% | 0 | 0% |
| Is the temperature in the factory tolerable to work in? | 1 | 9% | 0 | 0% | -1 | -100% | 13 | 14% | 7 | 8% | -6 | -46% | 6 | 10% | 5 | 8% | -1 | -17% | 20 | 12% | 12 | 7% | -8 | -40% |
| In case of injury or illness, can medical care for the workers be provided at short notice? | 1 | 9% | 1 | 9% | 0 | 0% | 16 | 17% | 5 | 5% | -11 | -69% | 2 | 3% | 2 | 3% | 0 | 0% | 19 | 12% | 8 | 5% | -11 | -58% |
| Is the factory clean and free from dirt and dust? | 1 | 9% | 1 | 9% | 0 | 0% | 7 | 8% | 1 | 1% | -6 | -86% | 9 | 15% | 4 | 7% | -5 | -56% | 17 | 10% | 6 | 4% | -11 | -65% |
| Do the workers have unlimited access to the toilets? | 3 | 27% | 0 | 0% | -3 | -100% | 13 | 14% | 2 | 2% | -11 | -85% | 0 | 0% | 4 | 7% | 4 | 0% | 16 | 10% | 6 | 4% | -10 | -63% |
| Is there a sufficient number of toilets? | 1 | 9% | 0 | 0% | -1 | -100% | 12 | 13% | 2 | 2% | -10 | -83% | 1 | 2% | 1 | 2% | 0 | 0% | 14 | 9% | 3 | 2% | -11 | -79% |
| Is the light in the factory sufficient for intended work? | 0 | 0% | 0 | 0% | 0 | 0% | 3 | 3% | 0 | 0% | -3 | -100% | 3 | 5% | 1 | 2% | -2 | -67% | 6 | 4% | 1 | 1% | -5 | -83% |
| Is the building considered as safe? | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 4 | 4% | 3 | 300% | 1 | 2% | 0 | 0% | -1 | -100% | 2 | 1% | 4 | 2% | 2 | 100% |

PROGRESS

FAP 1 – FAP 2



| QUESTION | FAR EAST (11 PRODUCTION UNITS) | | | | | | SOUTH ASIA (92 PRODUCTION UNITS) | | | | | | EMEA (59 PRODUCTION UNITS) | | | | | | TOTAL (162 PRODUCTION UNITS) | | | | | |
|---|--------------------------------|-------|---------------|--------|-------|---------------|----------------------------------|-------|---------------|--------|-------|---------------|----------------------------|-------|---------------|--------|-------|---------------|------------------------------|-------|---------------|--------|-----|-------|
| | NON-COMPLIANCE | | | CHANGE | | | NON-COMPLIANCE | | | CHANGE | | | NON-COMPLIANCE | | | CHANGE | | | NON-COMPLIANCE | | | CHANGE | | |
| | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | | | |
| NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | | | |
| Does the factory have complete safety data sheets for all chemical products? | 2 | 18% | 5 | 45% | 3 | 150% | 45 | 49% | 52 | 57% | 7 | 16% | 25 | 42% | 17 | 29% | -8 | -32% | 72 | 44% | 74 | 46% | 2 | 3% |
| Have the workers regularly handling chemicals been trained in safe chemical handling? | 3 | 27% | 6 | 55% | 3 | 100% | 34 | 37% | 39 | 42% | 5 | 15% | 21 | 36% | 23 | 39% | 2 | 10% | 58 | 36% | 68 | 42% | 10 | 17% |
| Are the chemical containers properly labelled? | 5 | 45% | 5 | 45% | 0 | 0% | 37 | 40% | 49 | 53% | 12 | 32% | 15 | 25% | 11 | 19% | -4 | -27% | 57 | 35% | 65 | 40% | 8 | 14% |
| Is the hazardous waste disposed of in a legal manner? | 2 | 18% | 4 | 36% | 2 | 100% | 30 | 33% | 3 | 3% | -27 | -90% | 24 | 41% | 28 | 47% | 4 | 17% | 56 | 35% | 35 | 22% | -21 | -38% |
| Is the information in the safety data sheets implemented? | 2 | 18% | 4 | 36% | 2 | 100% | 28 | 30% | 48 | 52% | 20 | 71% | 19 | 32% | 19 | 32% | 0 | 0% | 49 | 30% | 71 | 44% | 22 | 45% |
| Does the factory have the legally required environmental permits/licences? | 1 | 9% | 1 | 9% | 0 | 0% | 24 | 26% | 3 | 3% | -21 | -88% | 7 | 12% | 10 | 17% | 3 | 43% | 32 | 20% | 14 | 9% | -18 | -56% |
| Is the outgoing wastewater treated? | 0 | 0% | 0 | 0% | 0 | 0% | 17 | 18% | 3 | 3% | -14 | -82% | 0 | 0% | 0 | 0% | 0 | 0% | 17 | 10% | 3 | 2% | -14 | -82% |
| Does the wastewater treatment system meet requirements in local legislation? | 1 | 9% | 0 | 0% | -1 | -100% | 2 | 2% | 4 | 4% | 2 | 100% | 3 | 5% | 0 | 0% | -3 | -100% | 6 | 4% | 4 | 2% | -2 | -33% |
| Is sludge from the wastewater treatment disposed of in a legal or otherwise responsible manner? | 0 | 0% | 0 | 0% | 0 | 0% | 5 | 5% | 5 | 5% | 0 | 0% | 0 | 0% | 1 | 2% | 1 | 0% | 5 | 3% | 6 | 4% | 1 | 20% |
| Is the factory complying with all relevant environmental laws? | 0 | 0% | 0 | 0% | 0 | 0% | 2 | 2% | 0 | 0% | -2 | -100% | 1 | 2% | 0 | 0% | -1 | -100% | 3 | 2% | 0 | 0% | -3 | -100% |
| Are there clear signs that the wastewater treatment system is in use? | 0 | 0% | 0 | 0% | 0 | 0% | 3 | 3% | 5 | 5% | 2 | 67% | 0 | 0% | 1 | 2% | 1 | 0% | 3 | 2% | 6 | 4% | 3 | 100% |

PROGRESS

FAP 1 – FAP 2



| QUESTION | FAR EAST (11 PRODUCTION UNITS) | | | | | | SOUTH ASIA (92 PRODUCTION UNITS) | | | | | | EMEA (59 PRODUCTION UNITS) | | | | | | TOTAL (162 PRODUCTION UNITS) | | | | | |
|--|--------------------------------|-------|---------------|--------|-------|---------------|----------------------------------|-------|---------------|--------|-------|---------------|----------------------------|-------|---------------|--------|-------|---------------|------------------------------|-------|---------------|--------|----|-------|
| | NON-COMPLIANCE | | | CHANGE | | | NON-COMPLIANCE | | | CHANGE | | | NON-COMPLIANCE | | | CHANGE | | | NON-COMPLIANCE | | | CHANGE | | |
| | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | FAP 1 | FAP 2 | FAP 1 – FAP 2 | | | |
| NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | | | |
| SANDBLASTING & CHEMICAL TREATMENT | | | | | | | | | | | | | | | | | | | | | | | | |
| Are legally required air quality measurements done? | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 0 | 0% | -1 | -100% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 0 | 0% | -1 | -100% |
| Is ventilation sufficient? | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 1 | 1% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 1 | 1% | 0 | 0% |
| Are the workers educated on safe handling and risks? | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 3 | 3% | 2 | 200% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 3 | 2% | 2 | 200% |
| Does the sandblasting material contain less than 1% crystalline silica (SiO2)? | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 2 | 2% | 1 | 100% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 2 | 1% | 1 | 100% |
| Is there a wash station in direct connection with the sandblasting workplace in case dust or chemicals get into workers' eyes? | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 2 | 2% | 2 | 200% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 2 | 1% | 2 | 200% |
| Is hearing protection worn if there is a noisy environment, e.g. sandblasting? | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 1 | 100% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 1 | 100% |
| Is compulsory personal protective equipment (PPE) used? | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 1 | 100% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 1 | 100% |
| Does the cleaning staff have compulsory PPE when cleaning sandblasting area? | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 1 | 100% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 1 | 100% |
| Are the workers handling potassium permanganate in storage and mixing using the PPE needed? | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 1 | 100% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 1 | 100% |
| Are the workers spraying chemicals using the PPE needed? | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 3 | 3% | 3 | 300% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 3 | 2% | 3 | 300% |
| Is the potassium permanganate stored safely? | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 2 | 2% | 2 | 200% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 2 | 1% | 2 | 200% |

PROGRESS

FAP 1 – FAP 2



| QUESTION | FAR EAST (11 PRODUCTION UNITS) | | | | | | SOUTH ASIA (92 PRODUCTION UNITS) | | | | | | EMEA (59 PRODUCTION UNITS) | | | | | | TOTAL (162 PRODUCTION UNITS) | | | | | | |
|---|--------------------------------|------------|-----------|---------------|------------|-------------|----------------------------------|------------|---------------|------------|-------------|-------------|----------------------------|---------------|------------|------------|-------------|-------------|------------------------------|------------|-------------|------------|-------------|---------------|---|
| | NON-COMPLIANCE | | | CHANGE | | | NON-COMPLIANCE | | | CHANGE | | | NON-COMPLIANCE | | | CHANGE | | | NON-COMPLIANCE | | | CHANGE | | | |
| | FAP 1 | | FAP 2 | FAP 1 – FAP 2 | | FAP 1 | | FAP 2 | FAP 1 – FAP 2 | | FAP 1 | | FAP 2 | FAP 1 – FAP 2 | | FAP 1 | | FAP 2 | FAP 1 – FAP 2 | | FAP 1 | | FAP 2 | FAP 1 – FAP 2 | |
| NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % | NO. | % |
| HOUSING | | | | | | | | | | | | | | | | | | | | | | | | | |
| Are workers granted some personal privacy? | 1 | 9% | 1 | 9% | 0 | 0% | 2 | 2% | 1 | 1% | -1 | -50% | 0 | 0% | 0 | 0% | 0 | 0% | 3 | 2% | 2 | 1% | -1 | -33% | |
| Does the dormitory meet required basic safety? | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 0 | 0% | -1 | -100% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 0 | 0% | -1 | -100% | |
| Is the temperature in the dormitory tolerable? | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 1 | 1% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 1 | 1% | 0 | 0% | |
| Does everyone living in the dormitory have an individual bed? | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 1 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 1 | 0% | |
| TOTAL | 119 | 16% | 83 | 11% | -36 | -30% | 1405 | 17% | 816 | 13% | -589 | -42% | 680 | 18% | 409 | 11% | -271 | -40% | 2204 | 21% | 1308 | 12% | -896 | -41% | |

By the end of 2008, 169 production units entered their second audit cycle with a second FAP audit since we started our Full Audit Programme (FAP) in 2006. The data provided compares the audit findings from both the first and second FAP audits at a total of 162 of these production units. Data for seven of the concerned production units was not available at the time the data was gathered.

In between the two FAP audits, non-compliances detected at the first FAP audit have been followed up by, in general, three follow-up audits, aiming to remediate non-compliances. In the case a non-compliance is detected during a follow-up, this finding is added to the total number of findings in the data provided above. In some rare cases, non-compliance findings from a FAP audit have first been identified to be solved in a follow-up, while a later follow-up audit detected a non-compliance in the same area once again. These cases are counted as multiple non-compliances. This explains why findings related to grievance systems (which are not required by our Code) and employment contracts show more than 100% non-compliance at FAP 1 in South Asia / South Asia and EMEA. Due to improved knowledge about data entering procedures and findings around the issue of grievance systems we see more reliable data at the FAP 2 status in regard to these particular issues.

We see good progress regarding most issues, although we have increased the focus on performing unannounced audits for the second FAP. Overtime above the legal limit shows some progress but remains an ongoing challenge. Findings on several environmental requirements have increased, thanks to now having seven dedicated EHS auditors (environment, health and safety) in place.

Data available for the Far East region applies to a limited amount of production units (11) and can therefore not be considered as fully representative. This low number results from the fact that our Full Audit Programme has been implemented later in the Far East than in other regions and due to this less production units have entered their second FAP audit cycle so far.

CO₂ EMISSIONS



CO₂ EFFICIENCY TARGETS

The table below shows that our activities in 2008 caused 2.70 tonnes of carbon dioxide emissions per million SEK of turnover (incl. VAT). This is an increase of 5% from 2,57 tonnes of CO₂ per million SEK of turnover from the previous year. However, we have made very good progress towards achieving our 2009 target to reduce emissions by 10% taking the 2004 level as baseline.

Part of the increase in emissions in 2008 is the result of changed rules around reporting CO₂ emissions from renewable electricity purchased in the UK. Previously UK electricity customers were able to buy renewable energy and use this as a 'zero-carbon' in CO₂ calculations. This is how H&M treated renewable electricity purchased in the UK in previous years' CO₂ calculations. The UK's voluntary reporting rules for CO₂ emissions have now changed because renewable electricity is already included within the carbon intensity of the UK's standard grid electricity, which includes all sources of electricity generation.

H&M has applied these new rules for calculating CO₂ emissions for the 2008 emissions and this has played a part in CO₂ emissions from electricity consumption, increasing by 60% compared to 2007. This source of emissions now stands for 34% of all emissions (2007: 25%).

| CO ₂ EMISSION BY SOURCE | 2008 | | | 2007 | | | 2006 | | | 2005 | |
|--|-------------|---------------|-----------------------|-------------|---------------|-----------------------|-------------|---------------|-----------------------|-------------|---------------|
| | SHARE | TONNES | CHANGE FROM LAST YEAR | SHARE | TONNES | CHANGE FROM LAST YEAR | SHARE | TONNES | CHANGE FROM LAST YEAR | SHARE | TONNES |
| Distribution centres | 3% | 8632 | 14% | 3% | 7601 | 7% | 2% | 7125 | -39% | 4% | 11599 |
| Electricity (entire company) | 34% | 94557 | 60% | 25% | 59162 | -51% | 40% | 120949 | 3% | 39% | 117647 |
| Transport (road, sea, rail) | 38% | 105565 | 10% | 41% | 96163 | -48% | 30% | 90682 | -1% | 28% | 83149 |
| Transports (air, including air from sea/air combination) | 17% | 47525 | -5% | 21% | 50142 | 6% | 21% | 62426 | 9% | 24% | 71131 |
| Business travel | 8% | 21480 | 1% | 9% | 21335 | -20% | 6% | 16691 | -12% | 4% | 12537 |
| Fuels for company owned cars | 1% | 2875 | 6% | 1% | 2714 | 28% | 1% | 2531 | 33% | 1% | 2346 |
| Total | 100% | 280634 | 18% | 100% | 237117 | -21% | 100% | 300404 | 8% | 100% | 298409 |

CO₂ EMISSIONS

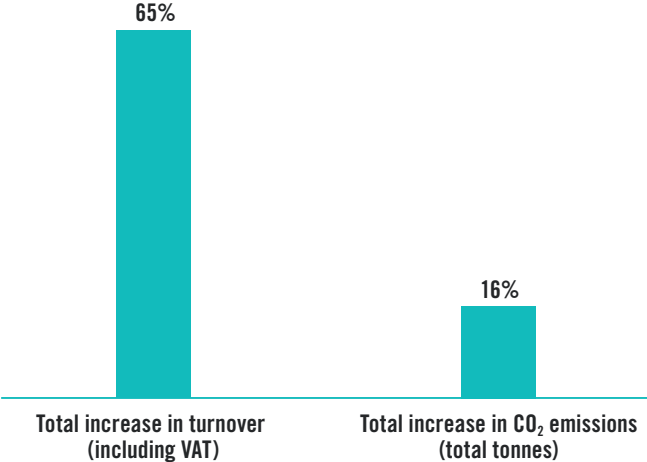


CO₂ EFFICIENCY TARGETS

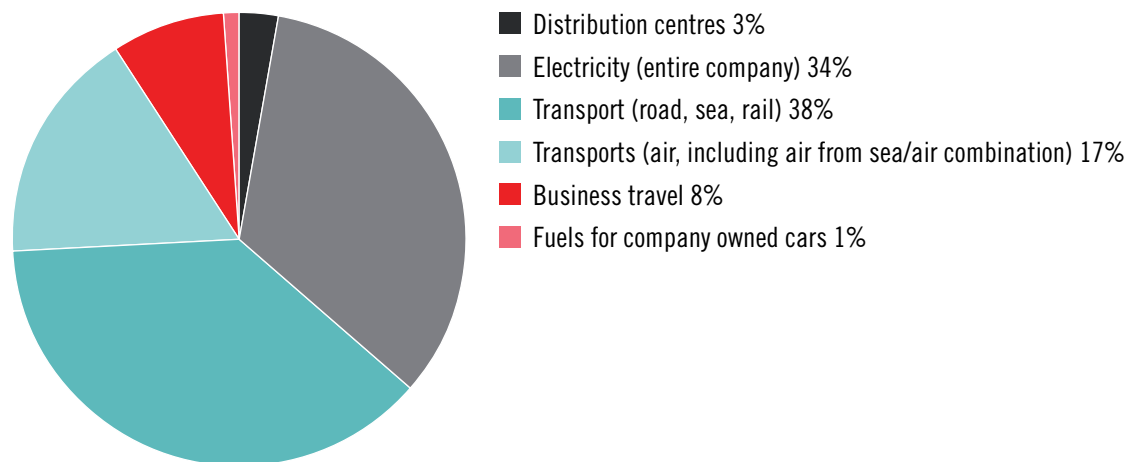
CO₂ EMISSIONS IN TONNES RELATIVE TO SALES (SEK MILLIONS INCLUDING VAT)



INCREASE IN TURNOVER (INCLUDING VAT) AND CO₂ EMISSIONS (TOTAL TONNES) 2004-2008



CO₂ EMISSIONS *BY SOURCE 2008*



OUR COLLEAGUES



SHARE OF FEMALE EMPLOYEES PER EMPLOYMENT CATEGORY

Board of directors: 35%

Group Management level: 33%

Sales Country managers: 44%

Production Office managers: 45%

Buying Division heads: 57%

Buying Section heads: 83%

Area managers: 67%

Store managers: 77%

Total share of female employees in management positions: 76%

Total share of female employees among total workforce: 79%

Not including franchise operations.

OUR COLLEAGUES

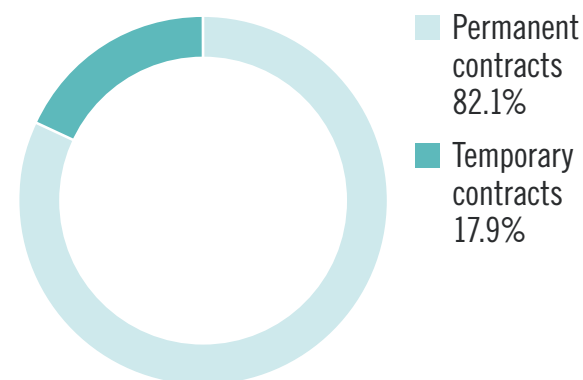


EMPLOYEE BREAKDOWN BY REGION AND JOB CATEGORY

| EMPLOYEES PER JOB CATEGORY (%) | EMPLOYEES PER REGION (%) |
|--------------------------------|-----------------------------|
| Sales associates 69% | Europe (except Sweden): 76% |
| Warehouse employee 7% | North America: 12% |
| Floor manager 6% | Sweden: 9% |
| Visual merchandiser 6% | Production Offices: 2% |
| Store manager 3% | Asia: 1% |
| Country office employees 3% | |
| Production Offices 2% | |
| Buying Office 2% | |
| Head Office 1% | |
| Other 1% | |

Data available for the total number of 70,303 employees (= 97% of total workforce by 30 November 2008).
Not including franchise operations.

EMPLOYEE CONTRACT TYPE 2008



Data available for the total number of 69,265 employees (= 96% of total workforce by 30 November 2008).
No data available for production offices. Not including franchise operations.

OUR COLLEAGUES



RATIO OF SALARY BETWEEN WOMEN AND MEN

Store managers: 0.938

Visual merchandiser: 0.938

Floor managers: 0.968

Sales associates: 0.997

Warehouse employees: 0.900

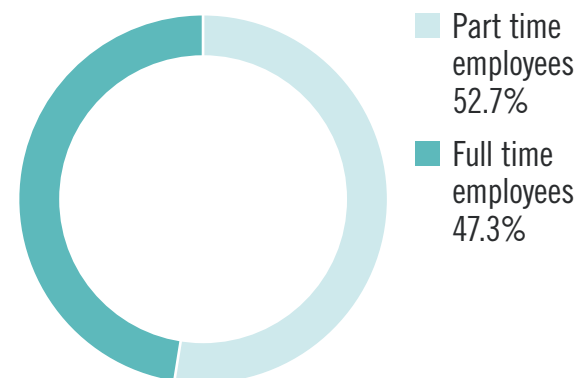
Country office employees: 0.769*

Others: 0.958

Data available for the total number of 66,625 employees (= 92% of total average workforce by 30 November 2008). No data available for Japan (305), part time employees in China (44) and Production Offices. Not including franchise operations. Data is not gathered for H&M Head Office and Buying Office due to non-comparable employment categories. The ratio is calculated as a weighted ratio due to different currency rates and payment intervals.

* This category includes a large number of different tasks, which are hard to compare such as our sales country manager and controllers, merchandisers, advertising, PR, accounting, administration etc. This estimation is supported by the fact that we see the biggest differences in our largest markets with a huge variety of different tasks in our country offices. This might be a reason for an unequal figure in this particular category. However we will look into this during 2009 to verify.

FULL TIME AND PART TIME EMPLOYEES 2008



Data available for the total number of 69,265 employees (= 96% of total workforce by 30 November 2008). No data available for production offices. Not including franchise operations.

GLOBAL ENVIRONMENTAL TARGETS 2009



| TARGET | TIMEFRAME | RESPONSIBLE |
|--|------------------|--|
| Use cotton in H&M supply chain from the first Better Cotton Initiative implementation season | 2010 | Henrik Lampa, KG Fagerlin |
| Include 250 tonnes of transitional cotton into H&M supply chain | Q1, 2010 | Henrik Lampa, Halide Alagöz |
| Increase the number of Eco Flower labelled garments for 2009 by 20% over the previous year | 2009 | Charlotte Tholsby |
| Increase the use of recycled and recyclable materials by making our plastic carrier bags out of recycled plastic | 2009 | Viveca Kleebinder, Madelene Ericsson |
| Pilot water saving washing technique in denim laundries | 2009 | Lars Dömer |
| Identify hotspots where wet processing units with high water use and/or low water efficiency are located in water scarce areas | 2009 | Henrik Lampa |
| Identify a method for monitoring the carbon footprint of our supply chain | 2009 | Henrik Lampa, Mikael Blommé |
| Initiate supply chain carbon footprint monitoring | 2010 | Henrik Lampa, Mikael Blommé |
| Installed wattage for all sales area lighting in new stores reduced by 13% | August 2009 | Peter Ekeberg, Magnus Tångring |
| To test out energy-efficient solutions in conjunction with the building of a new warehouse | 2010 | Martin Winckler-Carlsen, Mikael Blommé |
| To reduce H&M's carbon dioxide emissions by 10% relative to the size of the company measured in terms of sales | 31 December 2009 | Ingrid Schullström, Mikael Blommé |
| Reduction of energy use in stores by 20% per square metre | 2020 | Ingrid Schullström, Mikael Blommé |
| At least 20% of energy use in stores from renewable energy sources | 2020 | Ingrid Schullström, Mikael Blommé |

GLOBAL SOCIAL TARGETS 2009

TARGET 1: SECURE FAP 2.0

METHODS AND TOOLS



FOCUS AREA:

ACTIVITIES:

Secure auditing method

Ensuring audit quality and internal comparability by developing a benchmarking tool during 2009

Secure all internal CoC-routines in production offices

Develop internal audit tool and conduct internal audits globally to secure data quality

Auditor capacity building

Provide training in already identified development areas such as communication and environmental requirements. Through auditor evaluation tool (developed 2008) conduct gap-analysis and identify further auditor development areas. Parallel activity will be to develop training material on management system.

GLOBAL SOCIAL TARGETS 2009

TARGET II: REMEDIATION OF CRITICAL NON-COMPLIANCE ISSUES



| REGION / ISSUE | RELATED QUESTION FROM OUR AUDIT QUESTIONNAIRE | NON-COMPLIANCE 2008 | GOAL 2009 | ACTIVITY RELATED | RESPONSIBLE |
|----------------------|--|------------------------|------------------------------|---|--|
| EMEA | | | | | |
| Overtime | Is overtime compensated according to the law? | 58% | reduce non-compliance to 41% | Via close cooperation with our most important suppliers, aim for better transparency and thereby address and improve overtime compensation. In parallel educate the workers in their rights (e.g. overtime compensation). | Pelle Karlsson (Regional CoC-Coordinator Europe) |
| Minimum wage | Does the basic salary for every employee amount to at least the minimum wage for normal working hours (including piece rate workers)? | 25% (rejection reason) | reduce non-compliance to 20% | Via capacity building of our most important suppliers' CoC-organisations, reduce the no. of potential new production units that would fail an audit by breaching minimum wage requirement. | Pelle Karlsson (Regional CoC-Coordinator Europe) |
| Wastewater treatment | Does the wastewater treatment system meet requirements in local legislation and / or BSR (Business for Social Responsibility) guidelines whichever is the strictest? | 28% | reduce non-compliance to 14% | Follow up on the corrective actions planned by suppliers based on the water data tests collected in 2008 in order to fully meet BSR requirements. | Pelle Karlsson (Regional CoC-Coordinator Europe) |

GLOBAL SOCIAL TARGETS 2009

TARGET II: REMEDIATION OF CRITICAL NON-COMPLIANCE ISSUES



| REGION / ISSUE | RELATED QUESTION FROM OUR AUDIT QUESTIONNAIRE | NON-COMPLIANCE 2008 | GOAL 2009 | ACTIVITY RELATED | RESPONSIBLE |
|-----------------------------------|--|---------------------|--|---|--|
| SOUTH ASIA | | | | | |
| Overtime | Are monthly overtime hours within the legal limit? | 72% | reduce non-compliance by ten units to 68% | Conduct root-cause analysis and jointly with our 10 most important suppliers remediate the underlying reasons of excessive overtime. | Basirun Nabi (Regional CoC-Coordinator Asia) |
| Leave | Is sick leave granted according to the law? | 13% | reduce non-compliance until 2010 | As the percent findings in this area currently is low, we will further raise workers awareness on their rights (and thereby encourage them to demand leave) and simultaneously involve management in ensuring that policies and routines for sick-leave, maternity-leave and annual-leave are kept to. Due to this raised awareness we expect to see an increase of findings in 2009. In 2010 numbers are expected to decrease as applications should be granted by factory management. | Basirun Nabi (Regional CoC-Coordinator Asia) |
| | Is annual leave granted and paid for according to law? | 22% | | | Basirun Nabi (Regional CoC-Coordinator Asia) |
| Grievance / communication systems | Is there a grievance system in place in the factory? | 67% | reduce to 41% (not a compliance requirement) | Share the best practises of workers' direct needs (2008) with an extended numbers of suppliers. | Basirun Nabi (Regional CoC-Coordinator Asia) |
| Chemical handling | Have the workers regularly handling chemicals been trained in safe chemical handling? | 64% | reduce non-compliance to 32% | Knowledge of proper chemical handling is essential to avoid severe health risks of the workers. Further training to most important suppliers. | Basirun Nabi (Regional CoC-Coordinator Asia) |
| Wastewater treatment | Does the wastewater treatment system meet requirements in local legislation and / or BSR (Business for Social Responsibility) guidelines whichever is the strictest? | 16% | reduce non-compliance to 8% | Follow up on the corrective actions planned by suppliers based on the water data tests collected in 2008 in order to fully meet BSR requirements. | Basirun Nabi (Regional CoC-Coordinator Asia) |

GLOBAL SOCIAL TARGETS 2009

TARGET II: REMEDIATION OF CRITICAL NON-COMPLIANCE ISSUES



| REGION / ISSUE | RELATED QUESTION FROM OUR AUDIT QUESTIONNAIRE | NON-COMPLIANCE 2008 | GOAL 2009 | ACTIVITY RELATED | RESPONSIBLE |
|-----------------------------------|--|---------------------|--|--|--|
| FAR EAST | | | | | |
| Correct wages | Are correct wages paid regularly and on time? | 25% | reduce non-compliance to 13% | After reaching transparency with our suppliers, we will continue our analysis of attendance records and wage-documents to understand actual wage levels. We will thereafter engage our suppliers in capacity building and present successful business cases. | Tobias Fischer (Regional CoC-Coordinator Far East) |
| Contracts | Do all workers have an employment contract? | 41% | reduce non-compliance to 21% | Engage our suppliers in training and implementation of recruitment systems. | Tobias Fischer (Regional CoC-Coordinator Far East) |
| Grievance / communication systems | Is there a grievance system in place in the factory? | 93% | reduce to 47% (not a compliance requirement) | Assist in the development of grievance systems in suppliers' factories and involve a selected number of suppliers in an "External Hotline" project. | Tobias Fischer (Regional CoC-Coordinator Far East) |
| Wastewater treatment | Does the wastewater treatment system meet requirements in local legislation and / or BSR (Business for Social Responsibility) guidelines whichever is the strictest? | 13% | reduce non-compliance to 6% | Follow up on the corrective actions planned by suppliers based on the water data tests collected in 2008 in order to fully meet BSR requirements. | Tobias Fischer (Regional CoC-Coordinator Far East) |
| Health & safety systems | Are all basic safety requirements met? | 21% | reduce non-compliance to 8% | To maintain and improve basic safety management systems, have factories go through Health & Safety training and monitor the agreed progress. In Shanghai, training will be done through internal capacity. In Guangzhou external resources will be used. | Tobias Fischer (Regional CoC-Coordinator Far East) |
| Chemical handling | Have the workers regularly handling chemicals been trained in safe chemical handling? | 84% | reduce non-compliance to 42% | In applicable production units will in addition focus on chemical handling training. | Tobias Fischer (Regional CoC-Coordinator Far East) |

FOLLOW-UP ON 2008 GLOBAL ENVIRONMENTAL TARGETS



OUTCOME: COMPLETED ● IN PROGRESS ○ TIMEFRAME SET LATER THAN 2008 ○ NOT COMPLETED ⊘

| SHORT-TERM GOALS | OUTCOME | COMMENTS | TIMEFRAME | RESPONSIBLE |
|---|---------|--|------------------|---|
| Evaluate results from pre-study on how various technical aid can reduce the need to travel (while at the same time improve collaboration) | ● | Pre-study performed. | Q1, 2008 | IT department + cross-functional steering group |
| Initiate pilot test with video conferencing equipment at selected frequent travel destinations | ⊘ | Identified audio and web conferences as the most efficient solutions by now. Find more information in the related chapter of this report. Pilot not conducted due to cost reasons. | Q2, 2008 | IT department + cross-functional steering group |
| To reduce H&M's carbon dioxide emissions by 10% relative to the size of the company measured in terms of sales | ○ | Ongoing. | 31 December 2009 | Ingrid Schullström, Mikael Blommé |
| To test out energy-efficient solutions in conjunction with the building of a new warehouse | ○ | Ongoing. | 2010 | Logistics department, Mikael Blommé |
| Reduction of energy use in stores by 20% per square metre | ○ | Ongoing This target is part of our commitment to the ERRT 'Retail Declaration on energy efficiency and renewable energy', to be met by 2020. | 2020 | Ingrid Schullström, Mikael Blommé |
| At least 20% of energy use in stores from renewable energy sources | ○ | Ongoing This target is part of our commitment to the ERRT 'Retail Declaration on energy efficiency and renewable energy', to be met by 2020. | 2020 | Ingrid Schullström, Mikael Blommé |
| Communicate information material on environmentally adapted garment care | ● | Information material has been published on www.hm.com | Q2 2008 | Sanna Hallqvist, Madelene Ericsson |

FOLLOW-UP ON 2008 GLOBAL ENVIRONMENTAL TARGETS



OUTCOME: COMPLETED ● IN PROGRESS ○ TIMEFRAME SET LATER THAN 2008 ○ NOT COMPLETED ⊗

| SHORT-TERM GOALS | OUTCOME | COMMENTS | TIMEFRAME | RESPONSIBLE |
|--|---------|---|---|---|
| Increase the number of Eco Flower garments for 2008 by 50% to 1,500,000 pieces | ● | Related new target set for 2009. | 2008 | Charlotte Tholsby, Madelene Ericsson |
| Facilitate the management of hazardous waste in stores | ● | The test period in the two stores is completed. | Test period in 2008 in two stores in Sweden | Maria Lantz, Madelene Ericsson |
| Release re-assessed and revised environmental requirements for the purchase of shop-fitting and décor materials as well as office supplies | ● | The Environmental Guideline booklet was completed and presented to the interior and building dept. in October 2008. | Q2, 2009 | Joachim Hellman, Madelene Ericsson |
| Test inclusion of transitional cotton into our garments with 50 tonnes of transitional cotton | ○ | Target has not been met, but new target set for Q1, 2010. | 2008 | Henrik Lampa |
| Identify a method for monitoring the water footprint of our supply chain | ○ | Ongoing. | 2008 | Henrik Lampa |
| Identify a method for monitoring the carbon footprint of our supply chain | ○ | Ongoing. | 2008 | Henrik Lampa, Mikael Blommé |
| Monitor the carbon footprint of our supply chain | ○ | Not yet initiated. Target postponed to 2010. See related new target. | 2009 | Henrik Lampa, Mikael Blommé |

FOLLOW-UP ON 2008 GLOBAL SOCIAL TARGETS



OUTCOME: COMPLETED ● IN PROGRESS ○ TIMEFRAME SET LATER THAN 2008 ○ NOT COMPLETED ⊘

| TARGET | OUTCOME | COMMENTS | TIMEFRAME | RESPONSIBLE |
|---|---------|--|-----------|--|
| Update and revise the Code so as to cover a broader area of H&M's activities | ○ | Internally finalised, to be reviewed by stakeholders and launched during 2009. | | Ingrid Schullström |
| Support to suppliers on taking ownership of compliance improvement and implementation by developing a supplier guidelines handbook | ● | Distributed in 2008. Furthermore, translated into English, Turkish, Chinese and Romanian so far. | | Nanna Engvist, Maritha Lorentzon |
| Initiate audits of fabric suppliers through education, scoping the areas of improvement, ETP, auditing | ○ | Identified those fabric producers we have the closest relation with. An assessment was done during 2008 with around 20 fabric units. Identified that environmental issues and chemical handling are the most urgent ones. We will develop strategy and action point to extend support. | | Sofie Nyström |
| Refine and revise audit tool, FAP 2.0, with broader and deeper focus on workers' rights | ● | FAP 2.0 finalised. Introduced via internal training in November 2008 and taken into practice in all production countries January 2009 (in progress). | | Maritha Lorentzon |
| Staff development and recruitment Develop education package on - how we communicate with our suppliers - issues not directly linked to roll-out of FAP 2.0 | ○ | Developed auditor profiles (the roles within the CoC team) and defined the organisational structure of the CoC team. Education packages beside our ongoing training materials to be further developed in 2009 (Link to auditor training chapter). | | Lars-Åke Bergqvist, Maritha Lorentzon |

FOLLOW-UP ON 2008 GLOBAL SOCIAL TARGETS



OUTCOME: COMPLETED ● IN PROGRESS ○ TIMEFRAME SET LATER THAN 2008 ○ NOT COMPLETED ⊗

| TARGET | OUTCOME | COMMENTS | TIMEFRAME | RESPONSIBLE |
|--|---------|---|-----------|--|
| Identify brands collaborations and multi-stakeholder dialogue - MFAF - BFC - FLA - BSR - Brand groups - Global Compact - ABG - Evaluate possibilities for joint audits and remediations initiatives | ○ | We have identified our most important collaborations and will now focus on deepening and improving our cooperation and input with these chosen partners/initiatives. (Link to membership chapter and capacity building) | | Maritha Lorentzon |
| Increase workers' rights awareness through the following projects: Short Film: Rights Awareness (Bangladesh) GEX committee members (India) Workers Welfare Committee (Turkey) Sowkyam Foundation (India) Chemical Training (India, China) UNICEF HIV/AIDS (Cambodia) | ● | Short Film: Rights Awareness GEX committee members Workers Welfare Committee Sowkyam Foundation > see capacity building (link) Chemical Training > see our environment (link) UNICEF HIV/AIDS > see community investment (link) | | Local CoC Managers and Regional Coordinators |

FOLLOW-UP ON 2008 GLOBAL SOCIAL TARGETS



OUTCOME: COMPLETED ● IN PROGRESS ○ TIMEFRAME SET LATER THAN 2008 ○ NOT COMPLETED ⊘

| TARGET | OUTCOME | COMMENTS | TIMEFRAME | RESPONSIBLE |
|---|---------|--|-----------|--|
| Needs-based supplier education via identified service providers and projects | ○ | Ongoing. Please see the capacity building chapter for more information. | | Local CoC Managers and Regional Coordinators |
| Through networking identify the priorities from the worker's perspective. Coordinate and collect information from local networks | ○ | Conducted global mapping of existing local networks during 2008. Identified stakeholders (NGOs, governmental bodies, suppliers, unions, other companies) present and improved focusing our efforts. Identified that networking is, and needs to be, a continuous part of our work. | | Local CoC Managers and Regional Coordinators |
| Cooperate with UNICEF to take action on children's situation in the cotton growing industry in Tamil Nadu, based on research report conducted by UNICEF | ● | Please see the community investment chapter for more information. | | Anna Gedda |

GRI INDEX AND APPLICATION LEVEL



BACKGROUND TO THE GRI G3 GUIDELINES

H&M compiled the 2008 Sustainability Report by taking into consideration the Global Reporting Initiative (GRI) guidelines.

With the GRI G3 guidelines issued in 2006, the GRI has formalised the old principle of reporting ‘in accordance with’ the GRI. There are now three levels of application which are dependent on the different levels of disclosure across Profile, Management Approach and Performance Indicators. H&M has achieved a ‘self declared’ level B of application.



A table displaying disclosure against the indicators from the Apparel & Footwear Sector Supplement is also shown here. The Apparel & Footwear Sector Supplement Working Group has assessed each performance indicator and has provided some recommendations on how they could be applied in an incremental manner. Although these indicators have not been finalised, H&M have chosen to disclose against them. The indicators are marked by the Working Group with three sets of “do-ability criteria” which are:

- 1: Feasible to report for most and would be at the entry point for new reporters.
- 2: Normative and would be at a medium do-ability level.
- 3: Likely to be included in reports by best reporters, but challenging in terms of data collection and would not be expected to be reported by new reporters.

The following key has been used to show the extent of report coverage in both tables:

OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|-----------|---|------------------------------|---|---------------------------|-----------------|-------|
| 1.1 | Statement from the most senior decision maker of the organisation about the relevance of sustainability to the organisation and its strategy. | ● | Our Business/Interview with our CEO and CSR Manager | Interview with our CEO | | |

PROFILE 1. STRATEGY AND ANALYSIS

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|----------------------------------|--|------------------------------|---|---|-----------------|-------|
| 1.2 | Description of key impacts risks and opportunities. | ● | Our Business/From cotton to customer/Interview with our CEO and CSR Manager | Administration Report – risks and uncertainties | | |
| 2. ORGANISATIONAL PROFILE | | | | | | |
| 2.1 | Name of the organisation | ● | Throughout report | Contact details | | |
| 2.2 | Primary brands, products and/or services. | ● | Our Business | H&M in words and pictures | | |
| 2.3 | Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures. | ● | Our Business | Administration Report/Notes to the financial statements | | |
| 2.4 | Location of organisation's headquarters. | ● | Global brand, global impact and reach | H&M in words and pictures | | |
| 2.5 | Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report. | ● | Our Business | H&M in words and pictures | | |
| 2.6 | Nature of ownership and legal form. | ● | | Administration Report/Notes to the financial statements | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|-----------|---|------------------------------|---|---|-----------------|-------|
| 2.7 | Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries). | ● | Our Business/Global brand, global impact and reach | Countries in Detail: H&M in words and pictures | | |
| 2.8 | Scale of the reporting organisation, including: <ul style="list-style-type: none"> • Number of employees; • Net sales (for private sector organisations) or net revenues (for public sector organisations); • Total capitalization broken down in terms of debt and equity (for private sector organisations); and • Quantity of products or services provided. | ● | Our Colleagues/ Our Business/Global brand, global impact and reach | H&M in words and pictures/ Administration Report | | |
| 2.9 | Significant changes during the reporting period regarding size, structure or ownership. | ● | Our Business/Global brand, global impact and reach | H&M in words and pictures/ Administration Report | | |
| 2.10 | Awards received in the reporting period. | ● | Our Business | | | |

3. REPORT PARAMETERS

| REPORT PROFILE | | | | | | |
|----------------|--|---|--------------------------------|--|--|--|
| 3.1 | Reporting period (e.g. fiscal/calendar year) for information provided. | ● | Our Business/ How we report | | | |
| 3.2 | Date of most recent previous report (if any). | ● | Our Business/ How we report | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|----------------------------------|--|------------------------------|--|---------------------------|-----------------|-------|
| 3.3 | Reporting cycle (annual, biennial, etc.) | ● | Our Business/ How we report | | | |
| 3.4 | Contact point for questions regarding the report or its contents. | ● | Our Business/ How we report | | | |
| REPORT SCOPE AND BOUNDARY | | | | | | |
| 3.5 | Process for defining report content <ul style="list-style-type: none"> • Determining materiality; • Prioritising topics within the report; and • Identifying stakeholders the organisation expects to use the report. | ● | Our Business/ Sustainability strategy | | | |
| 3.6 | Boundary of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). | ● | Our Business/ How we report | | | |
| 3.7 | State any specific limitations on the scope or boundary of the report. ⁸ | ● | Our Business/ How we report/Performance | | | |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations. | ◑ | | | | |

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OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|--------------------------|--|------------------------------|--|---------------------------|-----------------|-------|
| 3.9 | Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. | ● | Our Business/ How we report/Performance | | | |
| 3.10 | Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement (e.g. mergers/acquisitions, change of base years/periods, nature of business, measurement methods). | ● | Performance | | | |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. | ● | Our Business/ How we report/Performance | | | |
| GRI CONTENT INDEX | | | | | | |
| 3.12 | Table identifying the location of the Standard Disclosures in the report. | ● | Performance | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|---|--|------------------------------|--------------------------------|-----------------------------|-----------------|-------|
| | ASSURANCE | | | | | |
| 3.13 | Policy and current practice with regard to seeking external assurance for the report. | ● | Our Business/ How we report | | | |
| 4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT | | | | | | |
| | GOVERNANCE | | | | | |
| 4.1 | Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight. | ● | | Corporate Governance Report | | |
| 4.2 | Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organisation's management and the reasons for this arrangement). | ● | | Corporate Governance Report | | |
| 4.3 | For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members. | ● | | Corporate Governance Report | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|-----------|--|------------------------------|--|-----------------------------|-----------------|-------|
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. | ● | | Corporate Governance Report | | |
| 4.5 | Linkage between compensation for members of the highest governance body, senior managers and executives (including departure arrangements), and the organisation's performance (including social and environmental performance). | ● | | Administration Report | | |
| 4.6 | Processes in place for the highest governance body to ensure conflicts of interest are avoided. | ● | | Corporate Governance Report | | |
| 4.7 | Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics. | ● | | Corporate Governance Report | | |
| 4.8 | Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental and social performance and the status of their implementation. | ● | Our Business/CSR strategy, Our Supply Chain/ Code of Conduct | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|-----------|--|------------------------------|--|---------------------------|-----------------|-------|
| 4.9 | Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles. | ● | Our Business/Interview with our CEO and CSR Manager/ Sustainability strategy | | | |
| 4.10 | Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance. | ● | | Administration Report | | |
| | COMMITMENTS TO EXTERNAL INITIATIVES | | | | | |
| 4.11 | Explanation of whether and how the precautionary approach or principle is addressed by the organisation. | ● | Our Business/ Sustainability policy | | | |
| 4.12 | Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses. | ● | Our Business/Memberships, indices and awards | | | |
| 4.13 | Memberships in associations (such as industry associations) and/or national/international advocacy organisations | ● | Our Business/Memberships, indices and awards. Throughout the report | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|-----------|---|------------------------------|--|---------------------------|-----------------|-------|
| 4.14 | List of stakeholder groups engaged by the organisation. | ● | Our Business/Memberships, indices and awards/ Sustainability Strategy/ Performance | | | |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage. | ● | Our Business/Sustainability Strategy/Performance | | | |
| 4.16 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group. | ● | Our Business/Sustainability Strategy | | | |
| 4.17 | Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting. | ● | Our Business/Sustainability Strategy/Performance | | | |

5. MANAGEMENT APPROACH AND PERFORMANCE INDICATORS

| ECONOMIC PERFORMANCE INDICATORS | | | | | | |
|---------------------------------|---------------------------------|---|--------------|---------------------------|--|--|
| Aspect: Economic Performance | | | | | | |
| DMA | Management Approach disclosures | ● | Our Business | H&M in words and pictures | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ⊘ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|-----------|--|------------------------------|--------------------|-----------------------------------|-----------------|---|
| EC1 | Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and governments. | ● | | Administration Report | | |
| EC2 | Financial implications and other risks and opportunities for the organisation's activities due to climate change. | ● | Our Business | | ● Principle 7 | |
| EC3 | Coverage of the organisation's defined benefit plan obligations. | ● | | Notes to the financial statements | | |
| EC4 | Significant financial assistance received from government. | ⊘ | | | | Not relevant |
| | Aspect: Market Presence | | | | | |
| EC5 | Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation. (Additional indicator.) | ⊘ | | | | Minimum wages are required to be applied to wherever H&M operates |
| EC6 | Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation. | ⊘ | | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|---|--|------------------------------|---|---------------------------|-----------------|-------------------------------------|
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation. | ⊘ | | H&M in words and pictures | ● Principle 6 | Partially covered |
| Aspect: Indirect Economic Impacts Core | | | | | | |
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in kind, or pro bono engagement. | ⊘ | | | | |
| EC9 | Understanding and describing significant indirect economic impacts, including the extent of impacts. (Additional indicator.) | ● | Our Business/Global brand, global impact and reach. Throughout the report | | | |
| ENVIRONMENTAL PERFORMANCE INDICATORS | | | | | | |
| DMA | Management Approach disclosures | ● | Our Environment | | | |
| Aspect: Materials | | | | | | |
| EN1 | Materials used by weight or volume. | ● | Our Environment/Cotton | | ● Principle 8 | Refers to the use of organic cotton |
| EN2 | Percentage of materials used that are recycled input materials. | ⊘ | | | | |
| Aspect: Energy | | | | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|-----------|--|------------------------------|--|---------------------------|------------------|---|
| EN3 | Direct energy consumption by primary energy source. | ● | Performance | | ● Principle 8 | |
| EN4 | Indirect energy consumption by primary source. | ● | Performance | | ● Principle 8 | |
| EN5 | Energy saved due to conservation and efficiency improvements. (Additional indicator.) | ● | Our Environment/Our Carbon Footprint | | ● Principle 8, 9 | |
| EN6 | Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. (Additional indicator.) | ● | Our Environment/Our Carbon Footprint | | ● Principle 8, 9 | |
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved. (Additional indicator.) | ● | Our Environment/Our Carbon Footprint. Performance | | ● Principle 8, 9 | |
| | Aspect: Water | | | | | |
| EN8 | Total water withdrawal by source. | ○ | Partially in Our Environment/ Water and wastewater | | ● Principle 8 | Information about water usage in wet production processes |
| EN9 | Water sources significantly affected by withdrawal of water. (Additional indicator.) | ○ | Partially in Our Environment/ Water and wastewater | | ● Principle 8 | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|-----------------------------|--|------------------------------|---|---------------------------|-----------------|--|
| EN10 | Percentage and total volume of water recycled and reused. (Additional indicator.) | ⊘ | | | | Information about production wastewater quality available at Our Environment/ Water and wastewater |
| Aspect: Biodiversity | | | | | | |
| EN11 | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. | ⊘ | | | | |
| EN12 | Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. | ⊘ | | | | |
| EN13 | Habitats protected or restored. (Additional indicator.) | ⊘ | | | | |
| EN14 | Strategies, current actions, and future plans for managing impacts on biodiversity. (Additional indicator.) | ○ | Partially in Our Products/ product policy | | ● Principle 8 | |
| EN15 | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. (Additional indicator.) | ⊘ | | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◉ NO COVERAGE ⊘ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|-----------|---|------------------------------|--|---------------------------|---------------------|---|
| | Aspect: Emissions, Effluents, and Waste | | | | | |
| EN16 | Total direct and indirect greenhouse gas emissions by weight. | ● | Our Environment/ Our Carbon Footprint/ Performance | | ● Principle 8 | |
| EN17 | Other relevant indirect greenhouse gas emissions by weight. | ● | Our Environment/ Our Carbon Footprint/ Performance | | ● Principle 8 | |
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved. (Additional indicator.) | ● | Our Environment/ Our Carbon Footprint/ Performance | | ● Principle 7, 8, 9 | |
| EN19 | Emissions of ozone-depleting substances by weight. | ⊘ | | | | |
| EN20 | NOx, SOx, and other significant air emissions by type and weight. | ⊘ | | | | |
| EN21 | Total water discharge by quality and destination. | ◉ | Partially in Our Environment/ Water and wastewater | | ● Principle 8 | Reference to wastewater quality in production |
| EN22 | Total weight of waste by type and disposal method. | ⊘ | | | | |
| EN23 | Total number and volume of significant spills. | ⊘ | | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|-----------|---|------------------------------|----------------------------------|---------------------------|---------------------|-------|
| EN24 | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. (Additional indicator.) | ◑ | | | | |
| EN25 | Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff. (Additional indicator.) | ◑ | | | | |
| | Aspect: Products and Services | | | | | |
| EN26 | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. | ● | Our Environment/ Our Products | | ● Principle 7, 8, 9 | |
| EN27 | Percentage of products sold and their packaging materials that are reclaimed by category. | ◑ | | | | |
| | Aspect: Compliance | | | | | |
| EN28 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations. | ◑ | | | | |
| | Aspect: Transport | | | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◉ NO COVERAGE ◊ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|-----------|---|------------------------------|--|---------------------------|-----------------|-------|
| EN29 | Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce. (Additional indicator.) | ● | Our Environment/ Transporting Goods | | ● Principle 8 | |
| | Aspect: Overall | | | | | |
| EN30 | Total environmental protection expenditures and investments by type. (Additional indicator.) | ◊ | | | | |
| | LABOUR PRACTICES AND DECENT WORK PERFORMANCE INDICATORS | | | | | |
| DMA | Management Approach disclosures | ● | Our Colleagues | | | |
| | Aspect: Employment | | | | | |
| LA1 | Total workforce by employment type, employment contract, and region. | ● | Our Colleagues/ Our Approach | | | |
| LA2 | Total number and rate of employee turnover by age group, gender and region. | ◉ | | | | |
| LA3 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. (Additional indicator.) | ◊ | | | | |
| | Aspect: Labour/Management Relations | | | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|---|---|------------------------------|--|---------------------------|------------------|--|
| LA4 | Percentage of employees covered by collective bargaining agreements. | ● | Our Colleagues/Labour relations and dialogue | | ● Principle 1, 3 | |
| LA5 | Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements. | ⊘ | | | | |
| Aspect: Occupational Health and Safety | | | | | | |
| LA6 | Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes. (Additional indicator.) | ⊘ | | | | |
| LA7 | Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region. | ⊘ | | | | |
| LA8 | Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases. | ○ | Partially in Our Supply Chain/ Capacity building. Our Products | | | Our Products: in reference to product safety |
| LA9 | Health and safety topics covered in formal agreements with trade unions. (Additional indicator.) | ● | Our Colleagues/Labour relations and dialogue | | ● Principle 1 | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|--|--|------------------------------|--|---------------------------|------------------|--|
| Aspect: Training and Education | | | | | | |
| LA10 | Average hours of training per year per employee by employee category. | ● | Our Colleagues/Training and Development | | | |
| LA11 | Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. (Additional indicator.) | ● | Our Colleagues/Training and Development | | | |
| LA12 | Percentage of employees receiving regular performance and career development reviews. (Additional indicator.) | ● | Our Colleagues/Training and Development | | | |
| Aspect: Diversity and Equal Opportunity | | | | | | |
| LA13 | Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity. | ○ | Partially in Our Colleagues/Equality and Diversity | | ● Principle 1, 6 | Breakdown of board and other management categories according to gender |
| LA14 | Ratio of basic salary of men to women by employee category. | ● | Our Colleagues/Our Approach. Performance | | ● Principle 1, 6 | |
| HUMAN RIGHTS PERFORMANCE INDICATORS | | | | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|-----------|--|------------------------------|--|---------------------------|------------------------------|------------------------------|
| DMA | Management Approach disclosures | ● | | | | |
| | Aspect: Investment and Procurement Practices | | | | | |
| HR1 | Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening. | ● | Our Supply Chain | | ● Principle 1, 2, 3, 4, 5, 6 | Total numbers available |
| HR2 | Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken. | ● | Our Supply Chain. Performance | | ● Principle 1, 2, 3, 4, 5, 6 | Total numbers available |
| HR3 | Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. (Additional indicator.) | ● | Our Colleagues/CSR trainings/Our Supply Chain/Auditor training | | ● Principle 1, 2, 3, 4, 5, 6 | |
| | Aspect: Non-discrimination | | | | | |
| HR4 | Total number of incidents of discrimination and actions taken. | ● | Performance | | ● Principle 1, 2, 6 | Relating to Our Supply Chain |
| | Aspect: Freedom of Association and Collective Bargaining Core | | | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|-----------|---|------------------------------|--|---------------------------|---------------------|------------------------------|
| HR5 | Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. | ● | Our Supply Chain/Our Colleagues/Performance | | ● Principle 1, 2, 3 | |
| | Aspect: Child Labour | | | | | |
| HR6 | Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour. | ● | Our Supply Chain/Our Community Investments/Performance | | ● Principle 1, 2, 5 | Relating to Our Supply Chain |
| | Aspect: Forced and Compulsory Labour | | | | | |
| HR7 | Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour. | ● | Our Supply Chain/Performance | | ● Principle 1, 3, 4 | Relating to Our Supply Chain |
| | Aspect: Security Practices | | | | | |
| HR8 | Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations. (Additional indicator.) | ◑ | | | | |
| | Aspect: Indigenous Rights | | | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|---------------------------------------|---|------------------------------|-------------------------------|---------------------------|------------------|------------------------------|
| HR9 | Total number of incidents of violations involving rights of indigenous people and actions taken. | ● | Performance | | ● Principle 1, 2 | Relating to Our Supply Chain |
| SOCIETY PERFORMANCE INDICATORS | | | | | | |
| DMA | Management Approach disclosures | ● | | | | |
| Aspect: Community | | | | | | |
| S01 | Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting. | ● | Our Community Investments | | | |
| Aspect: Corruption | | | | | | |
| S02 | Percentage and total number of business units analysed for risks related to corruption. | ⊘ | | | | |
| S03 | Percentage of employees trained in organisation's anti-corruption policies and procedures. | ● | Our Colleagues/Code of Ethics | | ● Principle 10 | |
| S04 | Actions taken in response to incidents of corruption. | ● | Our Colleagues/Code of Ethics | | ● Principle 10 | |
| Aspect: Public Policy | | | | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|--|---|------------------------------|-------------------------------|---------------------------|---|-------|
| S05 | Public policy positions and participation in public policy development and lobbying. | ● | Our Colleagues/Code of Ethics | | ● Principle 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 | |
| S06 | Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country (Additional indicator.) | ● | Our Colleagues/Code of Ethics | | ● Principle 10 | |
| Aspect: Anti-Competitive Behaviour | | | | | | |
| S07 | Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes. (Additional indicator.) | ⊘ | | | | |
| Aspect: Compliance Core | | | | | | |
| S08 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. | ⊘ | | | | |
| PRODUCT RESPONSIBILITY PERFORMANCE INDICATORS | | | | | | |
| DMA | Management Approach disclosures | ● | | | | |
| Aspect: Customer Health and Safety | | | | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◉ NO COVERAGE ⊘ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|---|--|------------------------------|---------------------------|---------------------------|-----------------|-------|
| PR1 | Life-cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. | ◉ | Partially in Our Products | | ● Principle 1 | |
| PR2 | Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life-cycle, by type of outcomes. (Additional indicator.) | ⊘ | | | | |
| Aspect: Product and Service Labelling Core | | | | | | |
| PR3 | Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements. | ⊘ | | | | |
| PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes. (Additional indicator.) | ⊘ | | | | |
| PR5 | Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. (Additional indicator.) | ◉ | Partially in Our Products | | | |

GRI INDEX



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

| INDICATOR | DESCRIPTION | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | ANNUAL REPORT REF. IF ANY | UNGC PRINCIPLES | NOTES |
|---|---|------------------------------|-------------------------------------|---------------------------|-----------------|-------|
| Aspect: Marketing Communications | | | | | | |
| PR6 | Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship. | ● | Our Products/Customer communication | | | |
| PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes. | ◑ | | | | |
| Aspect: Customer Privacy | | | | | | |
| PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. (Additional indicator.) | ◑ | | | | |
| Aspect: Compliance | | | | | | |
| PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. | ◑ | | | | |

GRI INDEX APPAREL & FOOTWEAR SECTOR SUPPLEMENT



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

| ASPECT | DISCLOSURE | DO-ABILITY | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | NOTES |
|--|---|------------|------------------------------|--|-------|
| STRATEGY AND ANALYSIS | | | | | |
| APPAREL AND FOOTWEAR SECTOR SPECIFIC COMMENTARY ON G3 STRATEGY AND ANALYSIS | | | | | |
| | Commentary on 1.2 | | | | |
| | Description of key impacts, risks and opportunities: Where applicable, this should include an assessment of supply chain performance. | | | | |
| CROSS-CUTTING COMMENTARY | | | | | |
| APPAREL AND FOOTWEAR SECTOR SPECIFIC | | | | | |
| Capacity Building | Commentary for “Training and Education” in the Environment, Labour, Human Rights, Society and Product Responsibility Disclosure on Management Approach sections: This guidance applies to employees internal to the reporting organisation. Indicator AF5 refers to training and education programmes in workplaces within the reporting organisation’s supply chain. | | ● | Our Colleagues/Training and development, Our Supply Chain / Auditor training, Our Products | |

GRI INDEX APPAREL & FOOTWEAR SECTOR SUPPLEMENT



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

| ASPECT | DISCLOSURE | DO-ABILITY | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | NOTES |
|---|--|---|------------------------------|--|-------|
| SUPPLY CHAIN STANDARDS AND PRACTICES SECTION | | | | | |
| | APPAREL AND FOOTWEAR SECTOR SPECIFIC DISCLOSURE ON MANAGEMENT APPROACH | | | | |
| Code of Conduct | AF1. Code of Conduct content and coverage. ** | 1 | ● | Our Supply Chain/Code of Conduct | |
| Audit Process | AF2. Parties and personnel engaged in Code of Conduct compliance function.** | 1 | ● | Our business/Our Supply Chain | |
| Audit Process | AF3. Compliance audit process.** | 1 | ● | Our Supply Chain – Auditing and compliance | |
| Grievance Procedures | AF4. Policy and procedures for receiving, investigating and responding to grievances and complaints.** | 1 (own performance)/ 3 (own plus supplier performance) | ● | Our Supply Chain (throughout). Auditing and compliance/Our Colleagues/Our approach | |
| Capacity Building | AF5. Strategy and scope of efforts to strengthen capacity of management, workers and other staff to improve in social and environmental performance.** | 3 | ● | Our Supply Chain/Capacity building | |
| Business Integration | AF6. Policies for supplier selection, management and termination.** | 1 | ● | Our business. Our Supply Chain | |

GRI INDEX APPAREL & FOOTWEAR SECTOR SUPPLEMENT



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

| ASPECT | DISCLOSURE | DO-ABILITY | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | NOTES |
|-------------------------|--|------------|------------------------------|---|-------|
| | APPAREL AND FOOTWEAR SECTOR SPECIFIC PERFORMANCE INDICATORS | | | | |
| Code of Conduct | AF7. Number and location of workplaces covered by Code of Conduct.** | 1 | ● | Our Supply Chain. Performance | |
| Audit Process | AF8. Number of audits conducted and percentage of workplaces audited.** | 2 | ● | Our Supply Chain/Audit findings and progress. Performance | |
| Non-compliance findings | AF9. Incidents of non-compliance with legal requirements or collective bargaining agreements on wages.** | 1 | ● | Performance | |
| Non-compliance findings | AF10. Incidents of non-compliance with overtime standards.** | 1 | ● | Performance | |
| Non-compliance findings | AF11. Incidents of non-compliance with standards on pregnancy and maternity rights.** | 1 | ● | Performance | |
| Non-compliance findings | AF12. Incidents of the use of child labour.** | 1 | ● | Performance | |
| Non-compliance findings | AF13. Incidents of non-compliance with standards on gender discrimination.** | 1 | ● | Performance | |
| Non-compliance findings | AF14. Incidents of non-compliance with Code of Conduct.** | 2 | ● | Performance | |
| Non-compliance findings | AF15. Analysis of data from code compliance audits.** | 2 | ● | Performance | |

GRI INDEX APPAREL & FOOTWEAR SECTOR SUPPLEMENT



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◉ NO COVERAGE ◌ NOT RELEVANT ○

| ASPECT | DISCLOSURE | DO-ABILITY | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | NOTES |
|----------------------|--|------------|------------------------------|---|-------|
| Remediation | AF16. Remediation practices to address non-compliance findings.** | 2 | ● | Our Supply Chain | |
| Business Integration | AF17. Actions to identify and mitigate business practices that affect code Compliance.** | 3 | ● | Our Supply Chain/Our approach to purchasing, suppliers and the production chain | |

ENVIRONMENTAL SECTION

| APPAREL AND FOOTWEAR SECTOR SPECIFIC DISCLOSURE ON MANAGEMENT APPROACH | | | | | |
|--|--|---|---|--|--|
| Materials | AF18. Programmes to replace organic-based adhesives and primers with water-based adhesives and primers. | 2 Note: this disclosure applies primarily to non-manufacturing organisations | ◉ | Partially covered in Our Environment/Chemicals | |
| Materials | Practices to source safer alternative substances to those on the restricted substances list, including description of associated management systems. | 2 | ● | Partially covered in Our Environment/Chemicals. Our Products/Restricting hazardous chemicals | |

GRI INDEX APPAREL & FOOTWEAR SECTOR SUPPLEMENT



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

| ASPECT | DISCLOSURE | DO-ABILITY | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | NOTES |
|--------------------------------|--|------------|------------------------------|--|-------|
| Materials | <p>Commentary on EN1</p> <p>Materials used by weight or volume:</p> <ul style="list-style-type: none"> – Including use of pumice, stones and sand under Compilation 2.1 on “Associated process materials – Reporting on pumice, stones, and sand by weight under Compilation 2.3. | 2 | ⊘ | | |
| Materials | AF20. List of environmentally preferable materials used in apparel and footwear products. | 2 | ● | Our Environment/Cotton | |
| Energy | AF21. Amount of energy consumed and percentage of the energy that is from renewable sources. | 1 | ● | Our Environment/Our Carbon Footprint. Performance | |
| Emissions, Effluents and Waste | <p>Commentary on EN21</p> <p>Total water discharge by quality and destination:</p> <p>For Footwear: Reporting on total chromium discharges under Compilation 2.3.</p> <p>For Apparel: Reporting on the discharge of antimony, arsenic, cadmium, chromium, cobalt, copper, cyanide, lead, mercury, nickel and zinc under Compilation 2.3. To be following the appropriate International Organization for Standardization (ISO) analytical method or its equivalent.</p> | 1 | ○ | Partially covered in Our Environment – Wastewater/ Chemicals | |
| Emissions, Effluents and Waste | <p>Commentary on EN22</p> <p>Total weight of waste by type and disposal method:</p> <p>Report on pumice, stones and sand under Compilation 2.1</p> | 1 | ⊘ | | |

GRI INDEX APPAREL & FOOTWEAR SECTOR SUPPLEMENT



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ◑ NOT RELEVANT ○

| ASPECT | DISCLOSURE | DO-ABILITY | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | NOTES |
|-----------------------|--|------------|------------------------------|------------------------------|-------|
| Products and Services | <p>Commentary on EN26</p> <p>Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation:</p> <p>In addition to Compilation 2.2, report on specific programmes to reduce environmental impact of products, including but not limited to manufacturing, product use and packaging use at the design and conceptualisation stages. Report also on the use of recycled materials and the recyclability of products and packaging. Report quantitatively where possible.</p> | 2 | ● | Our Environment | |
| SOCIAL SECTION | | | | | |
| | <p>APPAREL AND FOOTWEAR SECTOR SPECIFIC COMMENTARY ON G3 LABOUR DISCLOSURE ON MANAGEMENT APPROACH. APPAREL AND FOOTWEAR ORGANISATIONS SHOULD INCLUDE THE FOLLOWING WHEN REPORTING AGAINST THE RELEVANT DISCLOSURE ON MANAGEMENT APPROACH.</p> | | | | |
| Employment | Include the use of foreign migrant workers | | ● | Our Supply Chain/Performance | |

GRI INDEX APPAREL & FOOTWEAR SECTOR SUPPLEMENT



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

| ASPECT | DISCLOSURE | DO-ABILITY | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | NOTES |
|-----------------------------------|---|------------|------------------------------|---|-------|
| | APPAREL AND FOOTWEAR SECTOR SPECIFIC LABOUR DISCLOSURE ON MANAGEMENT APPROACH | | | | |
| Employment | AF22. Policy and practices regarding the use of employees with non-permanent and non-fulltime status.** | 2 | ○ | Partially covered in Our Colleagues | |
| Employment | AF23. Policy regarding the use of home working.** | 2 | ● | Our Supply Chain/Home working | |
| Employment | AF24. Policy on the use and selection of labour brokers, including adherence to relevant ILO Conventions.** | 2 | ● | Our Supply Chain/Code of Conduct/Home working | |
| Wages and hours | AF25. Policy and practices on wage deductions that are not mandated by law.** | 1 | ● | Our Supply Chain/Code of Conduct | |
| Wages and hours | AF26. Policy on working hours, including definition of overtime and actions to prevent excessive and forced overtime.** | 1 | ● | Our Supply Chain/Code of Conduct | |
| Diversity and Equal Opportunities | AF27. Policy and actions to protect the pregnancy and maternity rights of women workers.** | 1 | ● | Our Supply Chain/Code of Conduct | |

GRI INDEX APPAREL & FOOTWEAR SECTOR SUPPLEMENT



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◉ NO COVERAGE ⊘ NOT RELEVANT ○

| ASPECT | DISCLOSURE | DO-ABILITY | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | NOTES |
|-----------------------------|--|--|------------------------------|---|-------|
| | APPAREL AND FOOTWEAR SECTOR SPECIFIC LABOUR PERFORMANCE INDICATORS AND COMMENTARY ON G3 INDICATORS | | | | |
| Employment | AF28. Percentage of foreign migrant workers as a portion of total workforce, broken down by region. | 1 Note: this indicator applies primarily to organisations that own or operate one or more manufacturing facilities. | ○ | | |
| Labour/Management Relations | AF29. Percentage of workplaces where there is one or more independent trade union(s), broken down by: – Workplaces with a collective bargaining agreement – Workplaces without a collective bargaining agreement Also provide information broken down by country. | 3 | ◉ | Partially covered in Our Colleagues/ Labour relations and dialogue | |
| Labour/Management Relations | AF30. Percentage of workplaces where, in the absence of a trade union, there are worker-management committees, broken down by country. | 3 | ⊘ | | |

GRI INDEX APPAREL & FOOTWEAR SECTOR SUPPLEMENT



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ◐ NO COVERAGE ⊘ NOT RELEVANT ○

| ASPECT | DISCLOSURE | DO-ABILITY | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | NOTES |
|--------------------------------|---|------------|------------------------------|----------------------------------|---|
| Occupational Health and Safety | <p>Commentary on LA 7.</p> <p>Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region:</p> <ul style="list-style-type: none"> – Include health issues associated with reduced lung function due to dust in “Occupational disease rate” under Compilation 2.4. – Include risk assessments and preventative measures for accidents and injuries under Compilation 2.7. | 1 | ⊘ | | |
| Occupational Health and Safety | AF31. Initiatives and programmes to respond to, reduce and prevent the occurrence of musculoskeletal disorders. | 2 | ⊘ | | |
| | APPAREL AND FOOTWEAR SECTOR SPECIFIC COMMENTARY ON HUMAN RIGHTS DISCLOSURE ON MANAGEMENT APPROACH | | | | |
| Non-discrimination | The treatment of foreign migrant workers | | ● | Our Supply Chain/Code of Conduct | |
| Abolition of Child Labour | Young workers as recognised by ILO Convention 182 | 2 | ● | Our Supply Chain/Code of Conduct | H&Ms policy against child labour is based on ILO convention 138 |

GRI INDEX APPAREL & FOOTWEAR SECTOR SUPPLEMENT



OUTCOME: FULL COVERAGE ● PARTIAL COVERAGE ○ NO COVERAGE ⊘ NOT RELEVANT ○

| ASPECT | DISCLOSURE | DO-ABILITY | EXTENT OF REPORTING COVERAGE | LOCATION (CHAPTER) | NOTES |
|----------------------|--|------------|------------------------------|---|-------|
| | APPAREL AND FOOTWEAR SECTOR SPECIFIC SOCIETY PERFORMANCE INDICATORS AND COMMENTARY ON G3 INDICATORS | | | | |
| Community Investment | AF33. Priorities in community investment strategy. | 3 | ● | Our Community Investments | |
| Community Investment | AF34. Amount of investment in worker communities broken down by location. | 3 | ● | Our Community Investments | |
| Public Policy | <p>Commentary on S05.</p> <p>Public policy positions and participation in public policy development and lobbying:</p> <p>Report public policy position on the inclusion of labour and environmental protections in trade agreements and the degree to which lobbying positions integrate considerations about the potential effects on workers, communities and organisations in the supply chain under Compilation 2.3.</p> | 3 | ○ | Partially covered in Our Business/ Code of Ethics | |
| | ** Reporting organisations must also include entities that they monitor (i.e. those defined as under significant influence by the Report Boundary guidance). | | | | |

The UN Global Compact Principles can be found under:
<http://www.unglobalcompact.org/AbouttheGC/TheTENPrinciples/index.html>

UN GLOBAL COMPACT PRINCIPLES



H&M is signatory to the United Nations Global Compact and supports the UN Millennium Development Goals.

The Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. By doing so, businesses, as a primary agent driving globalisation, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere.

The following table identifies where, within our Sustainability report, you can find information on how we work to support the 10 principles of the Global Compact. More information on the Global Compact can be found at www.unglobalcompact.org

| PRINCIPLE | | REPORT REFERENCE |
|-------------|---|--|
| Principle 1 | Businesses should support and respect the protection of internationally proclaimed human rights | Our Supply Chain Our Business/Sustainability strategy Our Community Investments Our Colleagues – Equality/Labour Relations and dialogue |
| Principle 2 | Businesses should make sure that they are not complicit in human rights abuses | Our Supply Chain – Code of Conduct/Auditing and compliance/Audit findings and progress in 2008 Performance |
| Principle 3 | Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining | Our Supply Chain/Code of Conduct Our Colleagues/Labour relations and dialogue Performance |
| Principle 4 | Elimination of all forms of forced and compulsory labour | Our Supply Chain/Code of Conduct Performance |
| Principle 5 | Effective abolition of child labour | Our Supply Chain/Code of Conduct Our Community Investments Performance |

UN GLOBAL COMPACT *PRINCIPLES*



| PRINCIPLE | | REPORT REFERENCE |
|--------------|---|---|
| Principle 6 | Elimination of discrimination in respect of employment and occupation | Our Supply Chain/Code of Conduct Our Colleagues/Equality Performance |
| Principle 7 | Businesses should support a precautionary approach to environmental challenges | Our Environment Our Business/Sustainability Strategy Our Products – Quality Assurance/Restricting Hazardous Chemicals |
| Principle 8 | Undertake initiatives to promote greater environmental responsibility | Our Environment Performance |
| Principle 9 | Encourage the development and diffusion of environmentally friendly technologies | Our Environment/Cotton |
| Principle 10 | Businesses should work against corruption in all its forms, including extortion and bribery | Our Colleagues/Code of Ethics |